

This is the 1st affidavit of
D. Gumprich in this case and was
made on October 20, 2011

No. _____
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.

3. I have read a draft of the Petition to be filed in these proceedings and the facts set out in Part 2 therein are true. Attached and marked as **Exhibit "A"** to this my affidavit is a true copy of the draft Petition that I reviewed. Capitalized terms used herein have the meaning ascribed to them in the draft Petition.

Overview of the Business

4. The Company operates 158 retail stores in five provinces across Canada: British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The Company also operates a wholesale division under the name B-Code Imports which represents less than 2% of total annual revenues. The Company offers a broad selection of private label and brand name shoes through five main retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. The Company's products include dress and casual footwear as well as a range of accessories including handbags, shoe care products and hosiery.

5. The Company employs approximately 1,100 people. Approximately 80 people are employed in Richmond, British Columbia in a variety of head office and warehouse functions and the remainder are employed in the retail operations. The Company does not have any unionized employees and does not operate a pension plan. The Company does not own any real property. All of its retail, warehouse and head office operations are conducted out of leased premises.

Directors and Officers

6. The current directors of Sterling are: Richard Mahler (Chairman), Allen Sello, Solomon Oshry, Q.C., Steven Richardson, Mannie Druker and David Alves (collectively, the "**Sterling Directors**"). The current officers of Sterling are David Alves (President and Chief Executive Officer), Daniel Gumprich (Chief Financial Officer), Sairose Kassam (Vice President, Supply), Scot Sheeler (Vice President, Store Operations), Colin Romain (Vice President, Shoe Warehouse), Melanie Best-Richardson (Vice President, Freedman/Joneve) and Kelly Stark-Anderson (Secretary).

7. The current directors of GP are Richard Mahler (Chairman) and David Alves (collectively, the “**GP Directors**”). The current officers of GP are David Alves (President and Chief Executive Officer), Melanie Best-Richardson (Vice President, Freedman/Joneve), Daniel Gumprich (Chief Financial Officer), Sairose Kassam (Vice President, Supply), Colin Romain (Vice President, Shoe Warehouse), Scot Scheeler (Vice President, Store Operations) and Kelly Stark-Anderson (Secretary).

8. Attached as **Exhibit “B”** is a chart setting out the directors and officers of Sterling along with their brief profiles.

The Need for CCAA Protection

9. In August 2011, a special committee of the Sterling board of directors was established to consider, evaluate and make recommendations to Sterling’s board of directors on refinancing and reorganization options available to the Company (the “**Special Committee**”).

10. In furtherance of the Special Committee’s mandate, in August 2011 the Special Committee engaged Capital West Partners as financial advisor to assist with a strategic review of financial and liquidity issues. It has become apparent that any recapitalization of the Company will need to be undertaken as part of an overall strategy involving a restructuring under the CCAA.

11. The Company has engaged, and continues to engage, in a critical evaluation of its retail stores. The Company has identified a number of retail locations that do not effectively reach the Company’s target audience or fit the Company’s long-term vision of the Business.

12. In the first nine months of 2011 the Company closed five under-performing stores. In the past number of weeks the Company has also been in discussions with certain landlords and prospective new tenants discussing possible lease assignment agreements.

13. Having regard to its financial and operational circumstances, the Company has determined that it is necessary to seek protection under the CCAA in order to preserve enterprise value and continue going concern operations while seeking to implement a restructuring.

14. The Company is receiving numerous calls on a daily basis from stakeholders, including creditors, demanding payment in respect of outstanding obligations and making various other general inquiries about the financial condition of the Company. As a result of these and other pressures, it is becoming increasingly difficult to operate the Business.

15. The Company intends to pursue certain operational restructuring initiatives while under CCAA protection, including disclaiming certain leases. Any such operational restructuring initiatives will be undertaken for the purpose of further enhancing the Company's long-term financial health, liquidity and competitiveness and the prospects of a viable compromise or arrangement in respect of the Company.

16. In light of declining revenues, decreased sales over the past 24 months, current liquidity challenges and a challenging retail environment, the Company urgently requires a stay of proceedings and other protections afforded by the CCAA so that the Company may stabilize its Business and pursue a restructuring for the benefit of all of its stakeholders.

17. It is expected that a restructuring will enable the Company to make necessary improvements to the Business and continue as a financially sound industry competitor. A restructuring will reduce the strain on the Company's liquidity position and will enable the Company to continue going concern operations thereby preserving the employment of a substantial percentage of the Company's approximate 1,100 employees.

18. The Company is optimistic that a restructuring of the Business will have the effect of significantly improving its long-term financial prospects while preserving value and permitting it to continue to operate as a going concern beyond the period of creditor protection.

19. The Company has engaged in extensive discussions with its main secured creditor, BMO and BMO's advisors, in an effort to address the challenges facing the Company. The Company has the support of BMO in filing for CCAA protection and pursuing a restructuring of the Company and BMO has agreed to continue to provide financing to the Company if the Company files for CCAA protection pursuant to the terms of the Existing Credit Agreement, as amended by the Forbearance Agreement.

Secured Creditors and Unsecured Debentures

20. Attached and marked as **Exhibit "C"**, **"D"** and **"E"** to this my affidavit are search results of the British Columbia Personal Property Registry for each of Sterling, GP and the Limited Partnership.

21. The Company does not have any secured creditors of any significance other than BMO.

22. As of October 19, 2011, BMO is owed approximately \$14,700,000 under the Amended Facility. BMO has security over all or substantially all of the assets of the Company, including the Limited Partnership.

23. Pursuant to the Unsecured Debentures, Sterling is liable to debenture holders in the principal amount of \$25 million. Attached as **Exhibit "F"** is a copy of the Indenture for the Unsecured Debentures.

24. Interest under the Unsecured Debentures are payable semi-annually in arrears on October 31st and April 30th of each year. Sterling does not have the ability to make the interest payment on the Unsecured Debentures due on October 31, 2011 and is unable to meet its obligations as they generally become due. Attached as **Exhibit "G"** is a copy of a press release issued by Sterling announcing that it would not be making the October 31st interest payment on the Unsecured Debentures.

The Operations of the Company

25. As described in the Petition, the Company also seeks the imposition of a stay of proceedings in respect of the Limited Partnership.

26. On an operational basis, all or substantially all of the Business's activities are conducted through the GP and the Limited Partnership, including leasing, product supply and employment agreements. Furthermore, the GP and the Limited Partnership are responsible for generating substantially all of the Company's revenues.

27. Attached as **Exhibit "H"** is a corporate chart of the Company.

28. The Company's financial reporting is done on a consolidated basis. The Company operates under centralized senior management, all of which is directed from the Company's head office in Richmond, British Columbia.

29. Attached as **Exhibit "I"** is a copy of the Company's consolidated financial statements for the year ending December 31, 2010.

30. Attached as **Exhibit "J"** is a copy of the Company's interim consolidated financial statements for the six months ending June 30, 2011.

31. A stay of proceedings against the Limited Partnership is necessary in order to preserve the value and assets of the Company as the Company seeks to restructure. In light of the corporate structure of the Company, a successful restructuring cannot be implemented without the Limited Partnership receiving the protections being afforded to Sterling and the GP under the CCAA.

The Monitor

32. A&M has been retained by the Company to provide advice on its restructuring options with a view to acting as Monitor in the event of CCAA proceedings. In the course of fulfilling its mandate, A&M has become familiar with the Business and its current financial challenges. A&M has always been aware of the potential of a CCAA filing and I am advised by A&M that it has maintained its independence so that it can properly execute its duties as Monitor. Subject to court approval, A&M has consented to act as the Monitor of the Petitioners in this CCAA proceeding and in my view it is a fit and proper organization to do so.

33. I am advised by A&M that it proposes to file a pre-filing report with the Court in conjunction with the Petitioners' request for relief under the CCAA.

34. At no time, has A&M been:

- (a) a director, officer or employee of the Company;
- (b) related to the Company or to any former director or officer of the Company; or

- (c) the Company's auditor, accountant or legal counsel, or a partner or employee of the auditor, accountant or legal counsel of the Company.

35. Furthermore, A&M is not a trustee under a trust indenture issued by the Company or any person related to the Company, and is not a holder of a power of attorney granted by the Company or by any person related to the Company. A&M is not related to a trustee or holder of a power of attorney noted above.

Cash Flow

36. The Company, with the assistance of the proposed Monitor, has prepared a cash flow forecast through December 31, 2011 (the "**Cash Flow Forecast**"). Attached as **Exhibit "K"** is a copy of the Cash Flow Forecast.

37. As set out in the Cash Flow Forecast, the Company's principal uses of cash during the next eleven weeks will consist of the payment of ongoing costs of day to day operations and professional fees and disbursements in connection with these CCAA proceedings.

38. As part of the day to day operations of the Business, the Company has for many years sold pre-paid gift cards/credit notes to customers. This is standard practice in the retail industry and has been standard practice for the Company. Currently, there is approximately \$585,000 of pre-paid gift cards outstanding which have not been redeemed. In the Company's experience, and despite the pre-paid nature of gift cards, these pre-paid gift cards generally do not get fully redeemed. The Company estimates that only approximately 50% of outstanding gift cards will be redeemed. In addition, gift cards are issued and redeemed at retail value, but have an estimated cost of 50% due to the gross margin achieved upon a sale. Given the Company plans to operate throughout the CCAA process and emerge as an ongoing stronger business, in my view refusing to honour outstanding gift cards would significantly harm the goodwill the Company has with its customers and would adversely affect the customer base of the Company thereby adversely impacting the Business. For this reason, the Company seeks the ability to continue to honour gift cards purchased prior to the filing date.

Amended BMO Facility

39. Because of the current liquidity challenges, and as demonstrated in the Cash Flow Forecast, the Company requires ongoing financing to pursue its restructuring options and to propose a plan to its creditors.

40. As described in the Petition, on October 20, 2011, the Company and BMO concluded negotiations as to the terms and conditions of the Forbearance Agreement. Pursuant to the Forbearance Agreement, BMO will continue to provide availability under the Existing Credit Agreement to the Limited Partnership, including an overadvance limit of up to \$2,500,000, on the terms and conditions set out in the Existing Credit Agreement, as amended by the Forbearance Agreement.

The Administration Charge

41. A&M is prepared to act as Monitor during the CCAA proceeding and to assist the Company with preparation of cash flow projections and with all aspects in relation to a restructuring pursuant to, and subject to, the terms of the Initial Order of the Court and the statutory provisions of the CCAA. If so directed by the Court, A&M is also prepared to monitor the operations of the Company, to provide direction and guidance to management during the CCAA restructuring period regarding the restructuring, and to generally assist the Company with the restructuring efforts.

42. The Company believes that it is important to the Company's restructuring efforts that the Company continue its engagement of Capital West Partners as financial advisor.

43. Pursuant to the engagement arrangements with Capital West Partners, Sterling agreed to pay Capital West Partners a monthly work fee of \$20,000 per month (the "**Work Fee**"), plus reasonable out of pocket expenses (the "**Expenses**"). In addition, Sterling agreed to pay Capital West Partners certain success fees upon the completion of certain transactions. Only the payments owing to Capital West Partners in respect of the Work Fee and Expenses are to be secured by the Administrative Charge sought by the Company.

44. The Company's solicitors, the Company's financial advisor Capital West Partners, the proposed Monitor, and its solicitors are essential to the Company's restructuring. They have each advised that they are prepared to provide or continue professional services to the Company only if they are protected by a charge over the assets of the Company. Accordingly, the Company seeks to establish a priority charge over those assets in favour of its solicitors, Capital West Partners (to the extent of its Work Fee and Expenses), the Monitor, and the Monitor's solicitors.

45. In connection with its appointment, it is contemplated that the Monitor, counsel to the Monitor, counsel to the Company, and Capital West Partners (to the extent of its Work Fee and Expenses) will be granted a court ordered charge as security for their respective fees and disbursements relating to services rendered up to a maximum amount of \$500,000 with the priority set out in the Initial Order.

Director and Officer Protections

46. A successful restructuring of the Company will only be possible with continuity on the Sterling and GP boards of directors (collectively, the "**Directors**") as well as continuity in the make-up of the Company's officers (collectively, the "**Officers**"). As described in Exhibit B, the Directors have significant experience with the Company and continuity is essential to the Company's ongoing viability.

47. The Officers are equally important to the Company as they have specialized expertise and experience with the Company and the retail industry generally. Over time, the Officers have developed relationships with suppliers, employees and other stakeholders that will be important to the restructuring process. These relationships are not easily duplicated or replaced.

48. The Company will benefit from the experience and expertise of the Directors and Officers which will be invaluable in assisting the Company through the CCAA process.

49. While I am not a lawyer, it is my understanding that in certain circumstances directors and officers can be held personally liable for certain of a company's obligations to the federal and provincial governments during an insolvency proceedings, including with respect to payroll

remittances, harmonized sales taxes, goods and services taxes, withholding taxes, workers compensation remittances, etc. Furthermore, I understand it may be possible for directors and officers of a corporation to be held personally liable for certain wage-related obligations to employees. The prospect of these liabilities are further complicated by the fact that Sterling is a CBCA company, the Limited Partnership is a Manitoba limited partnership, the GP is a company incorporated under the laws of British Columbia and the Company operates in five different provinces.

50. Sterling maintains a directors' and officers' liability insurance policy (the "**D&O Insurance**") for the Directors and Officers of the Company. The current D&O Insurance provides \$10 million in coverage and expires on June 30, 2012.

51. In addition, there are also contractual indemnities which have been given by the Company to their Directors. On a cessation of going concern operations, the Company may not have sufficient funds to satisfy these indemnities should the Directors be found responsible for the full amount of the potential directors' liabilities.

52. The Directors have voiced significant concern with respect to potential personal liability if they continue in their current capacities. I am of the view that, in light of the potential for significant personal liability, some or perhaps all of the Directors will not continue their service and involvement in the proposed restructuring unless the Initial Order grants a charge as security for the Company's obligations as described above.

53. I am advised by the Company's insurer, Marsh Canada Ltd., that if the Company was to file for CCAA protection, and if the insurer agreed to renew the D&O Insurance, there would be a significant increase in the premium for that insurance in the magnitude of two or three times the current premium.

54. With the assistance of A&M, a calculation has been performed to estimate the quantum of the potential director and officer liabilities based on the number of employees, the Company's pay cycle and various other potential sources of personal liability such as source deductions and

tax amounts. After deducting for priority secured claims of employees, this amount could be in the range of approximately \$2,000,000 depending on certain assumptions.

55. The Company proposes that a charge in favour of the Directors and Officers be granted in the amount of \$1,500,000 to provide a reasonable level of protection to those directors and officers prepared to stay with the Company to see it through the CCAA process. The Company believes that the amount of the D&O Charge is fair and reasonable in the circumstances and understands the proposed Monitor and BMO are agreeable to the proposed amount of the D&O Charge and the priority of that charge as set out in the Initial Order.

56. The D&O Charge is vital to encouraging the continued participation of the Directors and Officers, who will provide necessary experience and stability to this process and guide the Company's restructuring efforts. It is critical that a level of continuity be maintained within the Company to ensure focus on achieving a restructuring plan that will benefit the Company's stakeholders. The D&O Charge will also provide significant assurances to the Company's employees that the payment of wages, vacation pay and other statutory entitlements will be satisfied, as well as withholding and tax obligations owing to the federal and provincial authorities.

Requirement for Relief Requested

57. The Petitioners are currently in a very challenging financial position. After many years of success and growth, the Company has faced significant declines in sales. In spite of the efforts made over the past year and the strategic avenues pursued, the Company is no longer able to meet its financial obligations and requires the protections afforded by the CCAA while it seeks to restructure its affairs.

AFFIRMED BEFORE ME at Vancouver,
British Columbia on October 20, 2011.

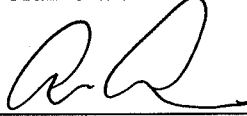


A Commissioner for taking Affidavits for British Columbia

Daniel Gumpich
Daniel Gumpich

Andrew Crabtree
Barrister & Solicitor
BLAKE, CASSELS & GRAYDON LLP
Suite 2600, Three Bentall Centre
595 Burrard St., P.O. Box 49314
Vancouver, B.C. V7X 1L3
(604) 631-4159

This is **Exhibit "A"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.



A Commissioner for the taking Affidavits for
British Columbia

DRAFT

No. _____
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

PETITION TO THE COURT

ON NOTICE TO: The Bank of Montreal

This proceeding has been started by the Petitioners for the relief set out in Part 1 below.

If you intend to respond to this petition, you or your lawyer must

- (a) file a Response to Petition in Form 67 in the above-named Registry of this Court within the time for Response to Petition described below, and
- (b) serve on the Petitioner
 - (i) 2 copies of the filed Response to Petition, and
 - (ii) 2 copies of each filed Affidavit on which you intend to rely at the hearing

Orders, including orders granting the relief claimed, may be made against you, without any further notice to you, if you fail to file the Response to Petition within the time for response.

Time for Response To Petition

A Response to Petition must be filed and served on the Petitioner,

- (a) if you were served with the Petition anywhere in Canada, within 21 days after that service,
- (b) if you were served with the Petition anywhere in the United States of America, within 35 days after that service,
- (c) if you were served with the Petition anywhere else, within 49 days after that service, or
- (d) if the time for response has been set by order of the court, within that time.

(1)	The address of the registry is: The Law Courts 800 Smithe Street Vancouver, BC V6Z 2E1a
(2)	The ADDRESS FOR SERVICE of the Petitioners is: Blake, Cassels & Graydon LLP Barristers & Solicitors Suite 2600, Three Bentall Centre 595 Burrard Street, PO Box 49314 Vancouver, BC V7X 1L3 Attention: Peter Rubin
	Fax number address for service (if any) of the Petitioners: 604-631-3309
	E-mail address for service (if any) of the Petitioners: N/A
(3)	The name and office address of the Petitioners' lawyer is: Blake, Cassels & Graydon LLP Barristers & Solicitors Suite 2600, Three Bentall Centre 595 Burrard Street, PO Box 49314 Vancouver, BC V7X 1L3 Attention: Peter Rubin

CLAIM OF THE PETITIONERS

Part 1: ORDERS SOUGHT

1. A Declaration that the Petitioners are corporations to which the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "CCAA") applies.
2. A Declaration that Alvarez & Marsal Canada Inc. (the "**Monitor**") shall be appointed as officer of the Court to monitor the assets, businesses and affairs of the Petitioners.
3. An Order that, until further order of this Court, all proceedings against the Petitioners, their directors and officers, and Sterling Shoes Limited Partnership are stayed, and the Petitioners and Sterling Shoes Limited Partnership's operations be carried out in accordance with the express terms of the Initial Order, with liberty to seek to amend or extend the terms of such Initial Order.
4. An Order substantially in the form of the draft Order attached hereto as Schedule "A" (the "**Initial Order**").
5. An Order authorizing the Petitioners to obtain and borrow under a debtor-in-possession credit facility to finance their working capital requirements and other general corporate purposes and capital expenditures, in an amount, with the priority, and on the terms to be determined by the Court.
6. An Order authorizing and permitting the Petitioners to file with this Court a formal plan of compromise or arrangement between the Petitioners and one or more of their classes of creditors (the "**Plan**"), pursuant to the provisions of the CCAA and the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 ("**CBCA**"), at such time as may be directed by the Court.
7. An Order defining the classes of creditors of the Petitioners for the purposes of meetings with respect to, and voting upon, any Plan or Plans that may be filed.
8. An Order that, upon filing of a Plan, the Petitioners call a meeting (the "**Meeting**") of the affected classes of their creditors to vote upon the Plan.

9. Such directions as may be required from time to time respecting the presentation of a Plan to the creditors of the Petitioners and, if subsequently required, a proof of claim process, conduct of the Meeting and related matters.
10. An Order sanctioning and approving the Plan or Plans with such amendments as may be proposed by the creditors of the Petitioners and approved by the Petitioners or as may be proposed by the Petitioners.
11. An Order that the Petitioners be at liberty to serve all pleadings and notices in this proceeding on any of their respective creditors by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery, fax transmission or email to the Petitioners' creditors at their respective addresses as last shown on the records of the Petitioners, and any such service or notice by courier, personal delivery, fax transmission or email shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.
12. An Order that the Orders in these proceedings shall have full force and effect in all provinces and territories of Canada and any other foreign country where creditors of the Petitioners are domiciled.
13. An Order that the Monitor, with the prior consent of the Petitioners, shall be authorized to apply as it may consider necessary or desirable, with or without notice, to any other court or administrative body, whether in Canada, the United States of America or elsewhere, for orders which aid and complement this Order and any subsequent Orders of this Court and, without limitation to the foregoing, an Order under Chapter 15 of the U.S. Bankruptcy Code, for which the Monitor shall be the foreign representative of the Petitioners and that all courts and administrative bodies of all such jurisdictions be requested to make such orders and to provide such assistance to the Monitor as may be deemed necessary or appropriate for that purpose.
14. An Order requesting the aid and recognition of any court or administrative body in any province or territory of Canada, the Federal Court of Canada, any administrative tribunal or other court constituted pursuant to the authority of the Parliament of Canada or any of its provinces or

territories and any Federal or State court or administrative body in the United States of America or any other foreign courts of any nation or state in aid of and to be complementary to this Court in carrying out the terms of any Order pronounced in these proceedings.

15. Such further and other Orders as this Court may deem just and as may be proper under the circumstances.

Part 2: FACTUAL BASIS

The Sterling Shoes Enterprise

16. The Petitioner Sterling Shoes Inc. ("**Sterling**") is a company incorporated under the CBCA. Sterling, together with the Limited Partnership (as defined below) and the GP (as defined below), are referred to herein as the "**Company**".

17. The principal and head office of the Company is located at 2580 Viscount Way, Richmond, British Columbia. The registered office of Sterling is located at suite 2600 – 595 Burrard Street, Vancouver, British Columbia.

18. Sterling was incorporated to effect the conversion of Sterling Shoes Income Fund to a corporate structure pursuant to a plan of arrangement under the *Business Corporations Act*, S.B.C. 2002 c. 57, which was completed on July 1, 2010 (the "**2010 Conversion**"). This conversion was undertaken in light of the implementation of the tax to be imposed on the taxable income of income funds effective January 1, 2011. Sterling is the successor to Sterling Shoes Income Fund pursuant to the 2010 Conversion.

19. Sterling Shoes Limited Partnership (the "**Limited Partnership**") is a limited partnership formed under the laws of the province of Manitoba. The registered office of the Limited Partnership in Manitoba is located at 30th floor - 360 Main Street, Winnipeg, Manitoba. The Limited Partnership was created for a number of corporate and tax purposes to assist with the Company's operations and to acquire and hold substantially all of the assets of the Business (as defined below). The Limited Partnership is extra-provincially registered in British Columbia and has a records office in British Columbia located at suite 2600 – 595 Burrard Street, Vancouver, British Columbia.

20. All of the issued and outstanding limited partnership units in the Limited Partnership are held by Sterling.

21. The Petitioner Sterling Shoes GP Inc. (the "GP") is the general partner of the Limited Partnership. The GP is a company incorporated under the laws of the province of British Columbia with a registered office located at suite 2600 – 595 Burrard Street, Vancouver, British Columbia.

22. The authorized share capital of the GP consists of an unlimited number of common shares and an unlimited number of special voting shares. All of the common shares of the GP are owned by Sterling. There are no special voting shares outstanding.

23. Attached as Exhibit "H" to the Affidavit #1 of Daniel Gumprich is a corporate chart of the Company.

The Sterling Shares

24. The authorized capital of Sterling consists of an unlimited number of shares. Sterling has approximately 6,641,860 million shares issued and outstanding (the "Shares").

25. Sterling is a publically traded entity which trades on the Toronto Stock Exchange under the symbol TSX:SSI. As at the close of trading on October 19, 2011 the Shares traded at \$0.09.

26. Sterling has not paid any dividends on the Shares since its incorporation.

The Company's Business

27. The Company is a Vancouver based footwear retailer operating 158 retail stores in five provinces across Canada: British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The Company offers a broad selection of private label and brand name shoes through five main retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. The Company also operates a wholesale division under the name B-Code Imports which represents less than 2% of total annual revenues. The Company's products include dress and casual footwear as well as a

range of accessories including handbags, shoe care products and hosiery (collectively the **"Business"**).

28. In 2005, prior to the 2010 Conversion, Sterling Shoes Income Fund completed an offering and raised gross proceeds of approximately \$53 million. In the years following the offering, the Company opened approximately 75 stores (approximately 60 net openings) and renovated and relocated many others. In 2005, the Company also started up its wholesale division, B-Code Imports.

29. The Company employs approximately 1,100 people. Approximately 80 people are employed in Richmond, British Columbia in a variety of head office and warehouse functions and the remainder are employed in the retail operations. The Company does not have any unionized employees and does not operate a pension plan. The Company's bi-weekly payroll obligations are approximately \$1 million.

30. The Company's annual revenue for the fiscal year ended December 31, 2010 was approximately \$127 million. The Company's typical peak season is in the fourth quarter from October to December with sales representing in excess of 30% of total annual revenues. Leading up to this peak season, working capital funding requirements increase with the higher purchase order volumes required prior to October which has caused recent financial constraints.

31. The Company's retail outlets are primarily located in shopping malls, strip malls and at street front locations. The Company does not own any real property. The Company is a party to numerous lease agreements with many different landlords for the use of the leased retail space, warehouse operations and head office.

32. The current complement of 158 stores are located across Canada as described in the table below.

Province	Shoe Warehouse	Sterling	Joneve	Freedman	Gia	TOTAL
British Columbia	38	19	5	10	1	73
Alberta	14	9	3	1	-	27
Saskatchewan	2	2	-	-	-	4
Manitoba	9	3	-	-	-	12
Ontario	11	23	6	2	-	42
TOTAL	74	56	14	13	1	158

33. The Company has developed strong relationships with leading suppliers of branded products, with manufacturers of private label shoes, and with key purchasing agents. The Company does not own or operate any manufacturing facilities and relies primarily on third party manufacturers in other countries for the production of its private label merchandise. The Company sources approximately 40% of its products from various Canadian suppliers with the balance sourced from offshore suppliers.

34. The Company has a central distribution centre in Richmond, British Columbia that receives, inspects, processes and distributes most of the Company's merchandise. The distribution centre is comprised of two separate civic addresses in Richmond, British Columbia. The Company utilizes a third-party warehouse in Mississauga, Ontario to receive, inspect, process and distribute the remainder of the Company's merchandise.

The Consolidated Operations

35. The Company's operations and financial reporting are done on a consolidated basis. The Company operates under centralized senior management and is subject to combined cash management and accounting functions, all of which are directed from the Company's head office in Richmond, British Columbia.

Cash Management

36. The Company's operations require the collection and movement of funds through a number of bank accounts held at various Canadian chartered banks (the "**Cash Management System**"). Sterling uses the Cash Management System in the ordinary course, which involves the deposit of funds from several "collection" deposit accounts held with various banks to the "central collection" account (the "**Central Account**") held at the Bank of Montreal ("**BMO**"). Funds are then transferred as needed from the Central Account to make required operational disbursements through the Company's central disbursement accounts held in Canadian and US currency.

37. The Cash Management System comprises seventeen (17) bank accounts in the name of the Limited Partnership:

- (a) Twelve (12) accounts are held at the BMO, including seven (7) in Canadian currency, of which one is for credit card deposit purposes (American Express), and five (5) in U.S. currency;
- (b) Four Canadian currency accounts held at other major Canadian chartered banks for purposes of depositing store cash collections at branches nearby store locations; and
- (c) One credit and debit card deposit account (for Mastercard, Visa and debit cards) held at a major Canadian chartered bank.

38. The Cash Management System is funded by receipts generated by store revenues ordinarily deposited at accounts at BMO or one of the other four major Canadian chartered banks, in addition to the credit card and debit collection system deposited in the credit and debit card deposit accounts. On a daily basis, cash is transferred from these accounts to the Central Account.

39. In addition to the above, there are three bank accounts held at BMO in the name of Sterling. However, these accounts have no on-going activity at this time.

40. On an operational basis, all of the Business's activities are conducted through the GP and the Limited Partnership, including leasing, product supply and employment agreements.

Furthermore, the GP and the Limited Partnership are responsible for generating substantially all of the Company's revenues.

Indebtedness of the Company

41. As of September 30, 2011, the Company's draft internal financial statements indicate that the primary indebtedness was, generally, as follows:

- (a) Secured Debt: approximately \$14,000,000;
- (b) Unsecured Debentures: approximately \$25,000,000 (with an additional \$800,000 interest payment due on October 31, 2011, of which approximately \$680,000 is accrued to September 30, 2011); and
- (c) Unsecured Trade Creditors and Other Indebtedness: approximately \$18,000,000.

Secured Debt - The BMO Facility

42. Pursuant to certain financing arrangements under an amended/updated commitment letter dated July 6, 2010, as amended by a letter dated March 15, 2011, as further amended by an amendment to credit facilities dated August 25, 2011, and as further amended by an agreement dated October 14, 2011 (collectively, the "**Existing Credit Agreement**"), the Limited Partnership has a \$4 million term facility (the "**Term Loan**") and a \$20 million revolving loan (the "**Operating Loan**") with BMO. Loans under the Existing Credit Agreement bear interest at a floating rate based on the Canadian dollar prime rates plus an applicable margin to those rates.

43. As of October 19, 2011, the indebtedness of the Limited Partnership under the Existing Credit Facility was approximately \$14,700,000. This amount includes approximately \$2,100,000 in outstanding letters of credit and \$4,000,000 outstanding under the Term Loan.

44. Both the Term Loan and the Operating Loan are guaranteed by Sterling and the GP and are secured by, among other security, a general security agreement creating a first ranking charge over all of the assets of the Company.

45. The Existing Credit Agreement is subject to customary terms and conditions, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of

BMO, and financial covenants, including the maintenance of a minimum senior fixed charge coverage ratio. The Existing Credit Agreement also requires the Company to meet certain conditions in order to maintain interest payments on the Unsecured Debentures described below. The maximum aggregate availability under the Existing Credit Agreement is subject to a borrowing base calculation that is reduced by an availability block, as well as certain reserves and adjustments.

46. The availability under the Existing Credit Agreement is calculated and changes on a week-to-week basis. In addition, there are step-down provisions in the Existing Credit Agreement which permanently reduced the availability of the overadvance limit on September 16, 2011, October 1, 2011 and October 16, 2011.

47. The overadvance limit under the Existing Credit Agreement was originally designed (and provided) by BMO to provide the Company with the additional liquidity necessary to address seasonal fluctuations. Prior to the amendment entered into by the Company and BMO on October 14, 2011, the overadvance limit was to be reduced to \$0, thereby reducing availability under the Existing Credit Agreement by \$3 million on October 16, 2011.

48. The Company's financial performance has fallen short of forecast and without access to a sufficient overadvance limit, the Company would not have sufficient liquidity to meet the Company's trade obligations as they became due.

49. The Company and BMO entered into negotiations regarding the terms and conditions of financing required to address the Company's liquidity needs while it sought to restructure its affairs under the *Companies' Creditors Arrangement Act* (the "CCAA"). BMO indicated that it would be agreeable to continuing to provide financing to the Company under the Existing Credit Agreement, including access to an overadvance limit, pursuant to the terms and conditions of a forbearance agreement.

50. Pending finalization and execution of a forbearance agreement, on October 14, 2011 the Company and BMO agreed to an amended overadvance limit as an interim measure to bridge the Company's liquidity needs between October 16, 2011 (the date the overadvance limit was

reduced to \$0) and the date the forbearance agreement was to be executed by BMO and the Company. That overadvance limit expires on October 21, 2011.

51. The Limited Partnership is currently in default of the Existing Credit Agreement in respect of the minimum required EBITDA. BMO has agreed to forbear on a day to day basis until the execution of a forbearance agreement.

52. On October 20, 2011, the Company and BMO concluded negotiations as to the terms and conditions of the forbearance agreement (the "**Forbearance Agreement**"). Pursuant to the Forbearance Agreement, BMO will continue to provide availability under the Existing Credit Agreement to the Limited Partnership, including an overadvance limit of up to \$2.5 million, on the terms and conditions set out in the Existing Credit Agreement, as amended by the Forbearance Agreement.

53. Although the Forbearance Agreement expires on December 31, 2011 (or such earlier time as provided in the Forbearance Agreement on the occurrence of certain events), the parties intend to commence negotiations on a revised cash flow forecast and the terms of an overadvance limit and availability after December 31, 2011 sufficient to allow the Company to complete its restructuring.

The Unsecured Debentures

54. On October 3, 2007 Sterling Shoes Income Fund closed an offering of \$25 million of convertible unsecured subordinated debentures (the "**Unsecured Debentures**") at a price of \$1,000 per debenture. The Unsecured Debentures are an obligation of Sterling. Neither the GP nor the Limited Partnership have guaranteed the obligations under the Unsecured Debentures.

55. As an unsecured obligation, the Unsecured Debentures are subordinate to the Amended Facility.

56. The Unsecured Debentures do not restrict the Company from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness.

57. The 25,000 Unsecured Debentures bear interest at an annual rate of 6.50% payable semi-annually in arrears on October 31 and April 30 in each year. The maturity date for the Unsecured Debentures is October 31, 2012.

58. The Unsecured Debentures are convertible at any time at the option of the holders into shares of Sterling at a conversion rate of approximately 47.281 shares per \$1000 principal amount of debenture, which is equal to a conversion price of \$21.15 per share.

59. The Unsecured Debentures trade on the Toronto Stock Exchange under the symbol SSI.DB. The Unsecured Debentures trade in increments of \$100, notwithstanding their face value of \$1,000. On January 1, 2011 the Unsecured Debentures traded in the range of \$80.00 per \$100 unit of a debenture. As of the close of the trading day on October 19, 2011 the Unsecured Debentures were trading at \$12.90.

60. On September 27, 2011 Sterling issued a press release announcing that it would not be making the interest payment of approximately \$800,000 on the Unsecured Debentures that is due to be paid on October 31, 2011.

61. As far as the Company is aware, the single largest, and only, holder with in excess of 10% of the Unsecured Debentures is BII Acquisition Inc. which holds \$2,573,000 of principal amount of Unsecured Debentures.

Unsecured Trade Creditors & Other Indebtedness

62. As outlined above, the amount owing to unsecured trade creditors and suppliers and other creditors is approximately \$18,000,000. Of this amount, approximately \$14,000,000 is related to trade creditors and approximately \$4,000,000 is due to non-trade payables, including \$585,000 for gift card credit notes and the remaining balance primarily relates to accrued employee wages, vacation pay, sales taxes and rent.

Efforts Taken To Date

63. In the fourth quarter of 2010 the Company undertook a number of steps directed at improving the Business. These steps included:

- Hiring a new President and CEO, Dave Alves, who joined Sterling and GP's board of directors on November 10, 2010 following an international search;
- Embarking on a strategic review and beginning a comprehensive re-organization of the Company's operating structure and business processes; and
- Accelerating the Company's strategy of clearing out aged inventory and reducing its investment in inventory thereby decreasing warehousing and logistic costs.

64. The efforts described above focused on inventory, operations, merchandising and branding. These efforts resulted in a number of improvements to the Business, including in the areas of gross margin, reduced inventory, store and selling expenses.

65. In August 2011, a special committee of the Sterling board of directors engaged Capital West Partners as financial advisor to assist in exploring strategic alternatives for the Company, including corporate finance efforts.

66. In addition to the efforts described above, the Company engaged, and continues to engage, in a critical evaluation of its retail stores. The Company has identified a number of retail locations that do not effectively reach the Company's target audience or fit the Company's long term vision of the Business.

67. In the first nine months of 2011 the Company has closed five under-performing stores.

The Company's Consolidated Financial Position

68. The Company's interim consolidated financial statements for the six months ending June 30, 2011 are attached as Exhibit "J" to the Affidavit of Daniel Gumprich. The Company's consolidated financial statements for the year ending December 31, 2010 are attached as Exhibit "I" to the Affidavit of Daniel Gumprich.

69. For the fiscal year ended December 31, 2010, the Company had sales revenue of \$127,028,000 as compared to \$131,170,000 for the year ended December 31, 2009. The

Company's sales revenue is generated in the Limited Partnership from retail sales in its 158 stores and in small part from its wholesale division.

70. For the six-month period ended June 30, 2011, sale revenue was \$46.3 million, compared to \$55.5 million for the same six-month period in 2010, representing a 16.5% decline. For that same six-month period ending June 30, 2011 the Company's net loss after taxes was \$4.2 million as compared to \$2.7 million in the first six months of 2010. A number of retail stores and banners have negative contribution margins while others have positive contribution margins.

71. As at June 30, 2011, the Company had total consolidated assets of \$71,611,000. This included consolidated current assets of \$36,326,000 and consolidated non-current assets of \$35,285,000.

72. As at June 30, 2011, the Company had total consolidated current liabilities of \$25,644,000 and total consolidated non-current liabilities of \$25,233,000.

73. Current assets, excluding cash and bank indebtedness, have increased during the second and third quarter of 2011 to approximately \$41 million at September 30, 2011 in anticipation of the normal build up of the Company's inventory requirements for the peak fall and winter selling season. Current assets, excluding cash and bank indebtedness, as at September 30, 2011 comprises:

- (a) Accounts receivable: \$100,000 (primarily representing credit card deposits in transit)
- (b) Inventory: \$40.3 million
- (c) Prepays and other: \$400,000

74. Bank indebtedness, including letters of credit of \$2,100,000, as at October 19, 2011 is approximately \$14,700,000. Letters of credit include \$1,500,000 posted as collateral in favour of a financier who has provided accounts receivables financing due to the Company's creditors and \$600,000 outstanding as collateral payment for inventory on purchase order. Inventory of \$600,000, which relates to a portion of the outstanding letter of credits, has not yet been received by the Company and is not included in the above noted current assets.

75. The Company expects to reduce bank indebtedness by December 31, 2011 as indicated in the cash flow forecast to approximately \$8,000,000 while reducing current assets, excluding cash and bank indebtedness, to approximately \$32,000,000.

Summary of Current Financial Difficulties

76. The Company is facing liquidity and profitability issues caused by an aggressive expansion undertaken in 2005-2008 which collided with the financial crisis and resulting weak economic and retail environment.

77. Despite progress being made in streamlining processes and cost-reduction initiatives, the Company continues to face balance sheet and declining and/or negative same store sales challenges. In particular, the Business overall has experienced negative year over year same store sales during 2010 and 2011.

78. The Company has experienced significant and unexpected declines in sales revenue. The worsening financial performance of the Company has made it impossible for the Company to service its debt obligations, including its trade creditors. The financial performance of the Company, demonstrated by the decline in the share price of Sterling, together with the troubled financial markets and poor economic conditions, have undermined the Company's efforts to address the issues it faces.

79. The Company's senior management and board of directors have concluded that in view of the Company's financial and operational challenges the need for a restructuring should be carried out in a CCAA proceeding.

80. The Company's senior, and only secured lender, BMO, has consented to this approach.

Proposed Restructuring

81. The Company operates a number of divisions, some of which are unprofitable. The Company believes that there is a viable core business. However, the Company is no longer able to meet all of its obligations.

82. In order to avoid possible enforcement proceedings by creditors, and other potential events that could harm the Business, the Company requires the protections afforded by a stay of proceedings to permit them to implement a restructuring for the benefit of all stakeholders.

83. It is expected that the restructuring of the Company, and the key elements of a plan of compromise or arrangement, may include the following:

- Closing non-performing or under-performing stores and/or banners;
- Reducing corporate overhead; and
- Pursuing strategies to grow the more successful aspects of the Business.

84. The Company believes that the best way to preserve enterprise value for the Company and its stakeholders is for an Initial Order to be granted and a restructuring to be pursued through a plan under the CCAA.

Monitor

85. Alvarez & Marsal Canada Inc. ("A&M") has consented to act as Monitor in these proceedings to provide court supervision, monitoring and to generally assist the Company with its restructuring efforts, including the preparation of the Plan to be put to its creditors, pursuant to the terms of the proposed Initial Order and the statutory provisions of the CCAA.

86. The Company expects that, with the assistance of its legal and financial advisors, and A&M, it will be able to develop a restructuring plan that will demonstrate the benefits to all stakeholders of preserving the Company.

Part 3: LEGAL BASIS

87. *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended.

88. *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended.

89. *Supreme Court Civil Rules*, Rules 2-1(2), 4-4, 8-1, 8-2, 16-1, 22-1 and 22-4.

90. *Law and Equity Act*, R.S.B.C. 1996, c. 253.

91. The inherent and equitable jurisdiction of this Honourable Court.

Part 4: MATERIALS TO BE RELIED ON

92. Affidavit #1 of Daniel Gumprich, sworn October 20, 2011

93. The Pre-Filing Report of Alvarez & Marsal Canada Inc.

The Petitioner estimate that the hearing of the Petition will take 60 minutes.

Date: October 21, 2011

Signature of
☐ Petitioner ☒ lawyer for Petitioners
Peter Rubin

To be completed by the court only:

Order made

☐ in the terms requested in paragraphs of Part 1 of
this petition

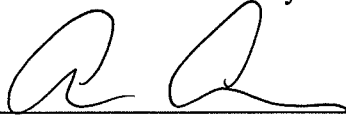
☐ with the following variations and additional terms:

.....
.....
.....

Date:[dd/mm/yyyy].....

.....
Signature of ☐ Judge ☐ Master

This is **Exhibit "B"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of two stylized, overlapping loops, positioned above a horizontal line.

A Commissioner for the taking Affidavits for
British Columbia

DIRECTORS AND OFFICERS

The following table sets out for each of the directors of the Company and our executive officers (collectively, the "Management Group") the person's name, province and country of residence, positions with the Company and the Partnership and principal occupation during the preceding five years, and number of Shares beneficially owned, directly or indirectly, or over which control or direction is exercised.

Name, Province and Country of Residence	Position	Principal Occupation
Richard T. Mahler British Columbia, Canada	Chairman and Director	Corporate Director
Allen R. Sello British Columbia, Canada	Director	Corporate Director
Solomon Oshry, Q.C. British Columbia, Canada	Director	Barrister & Solicitor
Steven Richardson Ontario, Canada	Director	Corporate Director
David Alves British Columbia, Canada	President and Chief Executive Officer, Director	President and Chief Executive Officer
Mannie Druker British Columbia, Canada	Director	Corporate Director
Daniel Gumprich British Columbia, Canada	Chief Financial Officer	Chief Financial Officer
Scot Sheeler British Columbia, Canada	Vice-President, Store Operations	Vice-President, Store Operations
Colin Romain British Columbia, Canada	Vice-President, Shoe Warehouse	Vice-President, Shoe Warehouse
Melanie Richardson British Columbia, Canada	Vice-President, Freedman/Joneve	Vice-President, Freedman/Joneve
Sairose Kassam British Columbia, Canada	Vice-President, Supply	Vice-President, Supply
Kelly Stark-Anderson British Columbia, Canada	Secretary	Lawyer

The term of office for each of the directors will expire at the time of the next annual meeting of the Company.

Under the terms of the Nomination Agreement, Inc. has the right to appoint two nominees to the boards of directors of the Company, so long as Inc. owns at least 15% of the Units (on a fully diluted basis).

During the last five years, all of the directors and officers have been employed in various capacities by the Company or by the companies indicated opposite their names except: (i) from 2006 to 2009, Mr. Richardson was the Chief Financial Officer for Hudson's Bay Company; (ii) Mr. Alves; and (iii) Mr. Sheeler was Vice President, Store Operations of Zellers from 1988 to 2006 and President, Advanced Electronics from 2007 to 2008.

The following are brief profiles of the current directors of the Company and the senior officers of the Partnership.

Richard T. Mahler – Mr. Mahler was Executive Vice President and Chief Financial Officer of Finning International Inc., the world's largest Caterpillar dealer, from 1990 until his retirement in 2003. From 1981 to 1990, Mr. Mahler served as Vice President Finance of Amdahl Canada, a provider of enterprise-scale computing, networking, and storage systems and services. Prior to that, he held various senior financial management positions with Ford Motor Company of Canada from 1968 to 1980. Mr. Mahler is past Chair and director, Partnerships British Columbia (a provincial crown corporation formed to deliver public services through public/private partnerships), a director and incoming Chair, British Columbia Investment Management Corporation (provides fund management services for public bodies and publically administered trust funds totaling \$85 billion), a director of Ten Peaks Coffee Company Inc. and past Chair and director of the VGH/UBC Hospital Foundation. He was awarded the 2002 Queen's Golden Jubilee Medal for Distinguished Service by the Governor General of Canada and the 2002 Chancellor's Award for Distinguished Service by Simon Fraser University. Mr. Mahler holds a B.Sc. and an MBA.

Allen R. Sello – Mr. Sello was Senior Vice President and Chief Financial Officer of UMA Group Ltd., a national engineering design and industrial contracting firm, from 1999 until his retirement in 2004. Prior to that, Mr. Sello was Chief Financial Officer of International Forest Products Ltd., a BC-based forest products company. Mr. Sello was employed by Gulf Canada Resources Ltd. from 1979 to 1995 where he was the Chief Financial Officer from 1987 to 1995. Prior to that he held senior financial and marketing management positions at Ford Motor Company of Canada from 1964 to 1979, ultimately as Treasurer. Mr. Sello is a director of North American Energy Partners Inc., a former director of Braintech Inc. and Infowave Software Inc., and past Chairman of the Vancouver Board of Trade – Government, Budget and Finance Committee. Mr. Sello holds a Bachelor of Commerce degree and an MBA.

Solomon Oshry, Q.C. – Prior to his immigration to Canada in 1978, Mr. Oshry was a Senior Partner in the law firm of Kahn, Oshry and Ellis in Johannesburg, South Africa. Upon his arrival in Canada he joined the Witten LLP law firm in Edmonton, Alberta and until 2002, when he retired from active legal practice and relocated to Vancouver, Mr. Oshry was a Senior Partner and member of the Management Committee of that firm, responsible for finance and administration. Mr. Oshry's legal practice focused primarily in the commercial real estate and corporate commercial areas. Mr. Oshry also taught Business Law at the Northern Alberta Institute of Technology in Edmonton and Commercial Conveyancing at the Vancouver Community College. In 1996 Mr. Oshry was appointed Queen's Counsel and in 2003 he was admitted as a member of the Law Society of British Columbia.

Steven P. Richardson – Mr. Richardson retired in 2009 as Chief Financial Officer at Hudson's Bay Company, a national retail group of companies, where he led the financial team from 2006 through to 2009. Over the years 2003 to 2006 he held various senior financial positions with the Hudson's Bay group of companies. Prior to joining the Hudson's Bay Company, he held the position of Chief Financial Officer with financial services companies, including Wells Fargo Financial Canada, Associates Financial Services of Canada and Beneficial Canada. Mr. Richardson began his career at Imperial Oil Limited, with various positions in the corporate finance and controller's departments. Mr. Richardson holds a Certified Management Accountant designation and completed the Senior Executive Leadership Program at Columbia University.

David Alves – Mr. Alves is President and Chief Executive Officer of the Company and the Partnership. Mr. Alves is a global retail executive with over 20 years of experience and has held various senior management and executive positions in buying, operations, e-commerce, and merchandising for Hudson's Bay Company, Winners/HomeSense, and TJX Europe. He spent 3 years in London, England as Managing Director and Group Buying Director where he was responsible for the introduction and growth of the HomeSense brand in Europe.

Mannie Druker – Mr. Druker was formerly Vice President, Finance and Leasing of the Company and the Partnership, prior to his retirement in June 2011. Mr. Druker has been associated with Mr. Joseph Segal and Kingswood Capital Corporation since 1981, both in Inc and as a partner in other operating businesses. Mr. Druker has been a shareholder and active in management of the Sterling Shoes Inc., primarily in all aspects of finance, leasing and acquisitions, since 1987. Mr. Druker obtained his Bachelor of Commerce degree from the University of Cape Town, South Africa in 1970 and became a Chartered Accountant in 1973. Mr. Druker immigrated to Canada in 1976 and has been a member of the Institute of Chartered Accountants of BC since 1979.

Daniel Gumprich — Mr. Gumprich is Chief Financial Officer of the Company and the Partnership. Mr. Gumprich joined Sterling Shoes as Chief Financial Officer in 2005. Mr. Gumprich is a Chartered Accountant, a Chartered Business Valuator and a Certified Public Accountant (Illinois). Mr. Gumprich also holds a Bachelor of Commerce degree from the University of Saskatchewan. Mr. Gumprich gained public accounting and financial advisory experience with PricewaterhouseCoopers from 1992 to 2003. Mr. Gumprich's final role at PwC was of Vice-President in the Corporate Finance group. Prior to joining Sterling Shoes, he was Director of Finance at Inflazyme Pharmaceuticals Ltd.

Scot Sheeler – Mr. Sheeler joined Sterling as our Vice-President, Store Operations on January 4, 2011 with a mandate to improve the efficiency and effectiveness of our store network. Scot is a senior executive with over 20 years of diverse and progressive experience in the retail industry. He has expertise in the creation and execution of operational strategies with extensive experience in store operations, in-store marketing, store planning, and loss prevention. Scot's recent experiences include serving as President & CEO of Advanced Electronics, and Vice President, Stores (Zellers Western Region) for the Hudson's Bay Company.

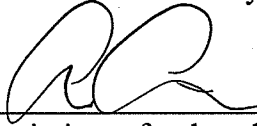
Colin Romain — Mr. Romain is our Vice President, Shoe Warehouse of the Partnership. Mr. Romain has a broad range of experience in the apparel industry, from manufacturing to retail, holding positions that ranged from head of buying to operations. After completing a year of compulsory military service, Mr. Romain studied Commerce at the University of Cape Town in South Africa from 1970 to 1974. He then joined Woolworths on their retail management program, rising to the position of Merchandising Manager (1975 to 1980). In 1981, he became a partner and General Manager of Polo Manufacturing in South Africa. Mr. Romain immigrated to Canada in 1986, joining Jean Machine of Toronto, Ontario as Operations Manager. Mr. Romain joined Inc in 1999, and is an instrumental member of the senior management team that has grown our Business to its current size.

Melanie Richardson – Ms. Richardson is our Vice President, Freedman/Joneve of the Partnership. Ms. Richardson has a broad range of experience in the fashion retail industry, ranging from operations, marketing, human resources, buying, finance and merchandise management. She joined Shoe Warehouse as a buyer in 1995 and was promoted to General Manager – Freedman in 2009. Prior to joining Sterling Shoes in 1995, Melanie spent 20 years with Off The Wall clothing company taking on increasing responsibilities, ending as the Operations Manager and making partner in 1992.

Sairose Kassam – Ms. Kassam is our Vice-President, Supply with a mandate to improve the efficiency and effectiveness of our store network. Sairose's recent experiences include 13 years at Roots Canada in

progressively senior roles including that of Vice-President Merchandising Roots & Roots 73. At Roots, Sairose was the Senior Executive responsible for design, buying, planning and execution of Roots, Roots 73 and Roots web strategic financial goals. She was also responsible for ensuring marketing and promotional strategies were in line with brand integrity; improving margins by improved sourcing, key vendor alliances and enhanced supply chain management.

This is **Exhibit "C"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, appearing to be 'RR', is written above a horizontal line.

A Commissioner for the taking Affidavits for
British Columbia

Lterm: XPSP0050 BC OnLine: PPRS SEARCH RESULT
For: PT28874 BLAKE CASSELS & GRAYDON

2011/10/20
11:35:19

Index: BUSINESS DEBTOR

Search Criteria: STERLING SHOES INC

** P. P. S. A. T R A N S I T I O N F I N A N C I N G S T A T E M E N T **

Reg. Date: JUL 15, 1992 Reg. Length: INFINITY
Reg. Time: 15:38:09 Expiry Date: N/A
Base Reg. #: 4106252 Control #: B0539230
Re-Registration of a Company Act Document Previously Registered In:
Companies Branch - Inc. # 330399 - 88SEP 2

Block#

S0001 Secured Party: BANK OF MONTREAL
MAIN OFFICE 595 BURRARD STREET
VANCOUVER BC V7X 1L7

+++ Base Debtor: STERLING SHOES INC.
(Business) 170-7771 ALDERBRIDGE WAY
RICHMOND B.C. V6X 2A4

General Collateral:

ALL PRESENTLY OWNED AND AFTER ACQUIRED PERSONAL PROPERTY (OTHER THAN
CONSUMER GOODS)

Registering

Party: BANK OF MONTREAL
MAIN OFFICE 595 BURRARD STREET
VANCOUVER BC V7X 1L7

----- A M E N D M E N T / O T H E R C H A N G E -----

Reg. #: 045693A

Reg. Date: NOV 02, 2001
Reg. Time: 11:47:37
Control #: C2587852

Base Reg. Type: PPSA TRANSITION FINANCING STMT

Base Reg. #: 4106252

Base Reg. Date: JUL 15, 1992

Details Description:

CHANGE DEBTOR'S ADDRESS

Block#

** DELETED **

+++ Bus. Debtor: STERLING SHOES INC.
170-7771 ALDERBRIDGE WAY
RICHMOND B.C. V6X 2A4

*** ADDED ***

=D0002 Bus. Debtor: STERLING SHOES INC.
250 VISCOUNT WAY
RICHMOND BC V6V 1N1

Registering

Party: CANADIAN SECURITIES REGISTRATION
SYSTEMS
180 13571 COMMERCE PARKWAY
RICHMOND BC V6V 2L1

Continued on Page 2

Page: 2

Registering

SYSTEMS

BURNABY BC V5G 3S8

Reg. Date: AUG 12, 2011

Reg. Length: 10 YEARS

Reg. Time: 13:56:36

Expiry Date: AUG 12, 2021

Base Reg. #: 298647G

Control #: D0719670

S0001 Secured Party: BANK OF MONTREAL

TORONTO ON M5X 1A1

=D0001 Base Debtor: STERLING SHOES INC

(Business) 2580 VISCOUNT WAY

RICHMOND BC V6V 1N1

General Collateral:

ALL OF THE DEBTOR'S PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY.

Registering

2300-550 BURRARD ST., BOX 30

VANCOUVER BC V6C 2B5

Some, but not all, tax liens and other Crown claims are registered at the Personal Property Registry (PPR) and if registered, will be displayed on this search result. HOWEVER, it is possible that a particular chattel is subject to a Crown claim that is not registered at the PPR. Please consult the Miscellaneous Registrations Act, 1992 for more details. If you are concerned that a particular chattel may be subject to a Crown claim not registered at the PPR, please consult the agency administering the type of Crown claim.

Page 2

This is **Exhibit "D"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of two stylized, overlapping capital letters 'A' and 'A'.

A Commissioner for the taking Affidavits for
British Columbia

Lterm: XPSP0050 BC OnLine: PPRS SEARCH RESULT 2011/10/20
For: PT28874 BLAKE CASSELS & GRAYDON 11:35:36

Index: BUSINESS DEBTOR

Search Criteria: STERLING SHOES GP INC

***** P P S A S E C U R I T Y A G R E E M E N T *****

Reg. Date: JUL 06, 2005 Reg. Length: 5 YEARS
Reg. Time: 11:56:46 Expiry Date: JUL 06, 2015
Base Reg. #: 447091C Control #: B6759352
*** Expiry date includes subsequent registered renewal(s).
Block#

S0001 Secured Party: BANK OF MONTREAL
6TH FLR, 595 BURNARD STREET
VANCOUVER BC V7X 1L7

D0001 Base Debtor: STERLING SHOES LIMITED PARTNERSHIP
(Business) 2580 VISCOUNT WAY
RICHMOND BC V6V 1N1

=D0002 Bus. Debtor: STERLING SHOES GP INC.
2580 VISCOUNT WAY
RICHMOND BC V6V 1N1

General Collateral:

ALL PRESENT AND AFTER ACQUIRED PERSONAL PROPERTY AND FLOATING
CHARGE ON LAND
ALL PRESENT AND FUTURE ACCOUNTS, DEBTS AND OTHER INTANGIBLES,
CHattel PAPER, DOCUMENTS OF TITLE, INSTRUMENTS, SECURITIES AND
SECURITY INTERESTS AND ALL PROCEEDS THEREOF AND THEREFROM AND
OTHER RIGHTS AND BENEFITS IN RESPECT THEREOF

Registering

Party: LINDSAY KENNEY
1800 -401 WEST GEORGIA STREET
VANCOUVER B.C. V6B 5A1

*** Name/Address Changed on October 7, 2010 to:

Registering

Party: LINDSAY KENNEY LLP
1800 -401 WEST GEORGIA STREET
VANCOUVER B.C. V6B 5A1

----- R E N E W A L -----

Reg. #: 520929F Reg. Date: APR 23, 2010
Reg. Life: 5 YEARS Reg. Time: 12:05:42
Control #: B9923373
Base Reg. Type: PPSA SECURITY AGREEMENT
Base Reg. #: 447091C Base Reg. Date: JUL 06, 2005

Registering

Party: CANADIAN SECURITIES REGISTRATION
SYSTEMS
4126 NORLAND AVENUE
BURNABY BC V5G 3S8

Search Criteria: STERLING SHOES GP INC

Page: 2

***** P P S A S E C U R I T Y A G R E E M E N T *****

Reg. Date: APR 24, 2008 Reg. Length: 6 YEARS
 Reg. Time: 05:54:44 Expiry Date: APR 24, 2014
 Base Reg. #: 318723E Control #: B8687783

Block#

S0001 Secured Party: IOS FINANCIAL SERVICES
 2300 MEADOWVALE BLVD. STE 200
 MISSISSAUGA ON L5N 5P9

=D0001 Base Debtor: STERLING SHOES GP INC.
 (Business) 2580 VISCOUNT WAY
 RICHMOND BC V6V 1N1

General Collateral:

ALL GOODS WHICH ARE PHOTOCOPIERS, PHOTOCOPYING MACHINES AND
 DUPLICATION DEVICES, TOGETHER WITH ALL REPLACEMENTS AND SUBSTITUTIONS
 THEREOF AND ALL PARTS, ACCESSORIES, ACCESSIONS AND ATTACHMENTS THERETO
 AND ALL PROCEEDS WHICH ARE ACCOUNTS, GOODS, CHATTEL PAPER,
 SECURITIES, DOCUMENTS OF TITLE, INSTRUMENTS, MONEY, INTANGIBLES, CROPS
 OR INSURANCE PROCEEDS (REFERENCE LEASE NO. 4413609002)

Registering

Party: FIRST CANADIAN TITLE
 801 - 4 HUGHSON STREET SOUTH
 HAMILTON ON L8N 3Z1

***** P P S A S E C U R I T Y A G R E E M E N T *****

Reg. Date: JUL 08, 2008 Reg. Length: 8 YEARS
 Reg. Time: 09:30:00 Expiry Date: JUL 08, 2016
 Base Reg. #: 465263E Control #: B8838869

Block#

S0001 Secured Party: KONICA MINOLTA BUSINESS SOLUTIONS
 (CANADA) LTD
 5035 SOUTH SERVICE ROAD
 BURLINGTON ON L7R 4C8

=D0001 Base Debtor: STERLING SHOES GP INC
 (Business) 2580 VISCOUNT WAY
 RICHMOND BC V6V 1N1

General Collateral:

COPIERS TOGETHER WITH ALL ATTACHMENTS, ACCESSORIES. ACCESSIONS,
 REPLACEMENTS, SUBSTITUTIONS, ADDITIONS AND IMPROVEMENTS THERETO.
 ALL PROCEEDS FROM THE AFORESAID COLLATERAL THAT ARE GOODS,
 INTANGIBLES, CHATTEL PAPER, DOCUMENTS OF TITLE, INSTRUMENTS, MONEY
 OR INVESTMENT PROPERTY (ALL AS DEFINED IN THE PERSONAL PROPERTY
 SECURITY ACT) AND INCLUDING INSURANCE PROCEEDS.

Registering

Party: JCLD ONLINE TECHNOLOGIES
 16-1375 SOUTHDOWN ROAD STE 322
 MISSISSAUGA ON L5J 2Z1

Page: 3

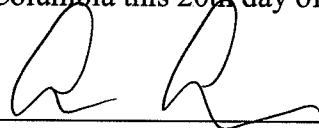
Reg. Date: AUG 12, 2011	Reg. Length: 10 YEARS
Reg. Time: 13:56:52	Expiry Date: AUG 12, 2021
Base Reg. #: 298648G	Control #: D0719661

S0001 Secured Party: BANK OF MONTREAL
100 KING STREET WEST, 11TH FLR
TORONTO ON M5X 1A1

General Collateral:
ALL OF THE DEBTOR'S PRESENT AND AFTER-ACQUIRED PERSONAL PROPERTY.

[illegible]

This is **Exhibit "E"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of stylized, cursive letters, positioned above a horizontal line.

A Commissioner for the taking Affidavits for
British Columbia

Lterm: XPSP0050 BC OnLine: PPRS SEARCH RESULT 2011/10/20
For: PT28874 BLAKE CASSELS & GRAYDON 11:35:45

Index: BUSINESS DEBTOR
Search Criteria: STERLING SHOES LIMITED PARTNERSHIP

***** P P S A S E C U R I T Y A G R E E M E N T *****

Reg. Date: JUL 06, 2005 Reg. Length: 5 YEARS
Reg. Time: 11:56:46 Expiry Date: JUL 06, 2015
Base Reg. #: 447091C Control #: B6759352
*** Expiry date includes subsequent registered renewal(s).
Block#

S0001 Secured Party: BANK OF MONTREAL
6TH FLR, 595 BURNARD STREET
VANCOUVER BC V7X 1L7

=D0001 Base Debtor: STERLING SHOES LIMITED PARTNERSHIP
(Business) 2580 VISCOUNT WAY
RICHMOND BC V6V 1N1

D0002 Bus. Debtor: STERLING SHOES GP INC.
2580 VISCOUNT WAY
RICHMOND BC V6V 1N1

General Collateral:

ALL PRESENT AND AFTER ACQUIRED PERSONAL PROPERTY AND FLOATING
CHARGE ON LAND
ALL PRESENT AND FUTURE ACCOUNTS, DEBTS AND OTHER INTANGIBLES,
CHattel PAPER, DOCUMENTS OF TITLE, INSTRUMENTS, SECURITIES AND
SECURITY INTERESTS AND ALL PROCEEDS THEREOF AND THEREFROM AND
OTHER RIGHTS AND BENEFITS IN RESPECT THEREOF

Registering

Party: LINDSAY KENNEY
1800 -401 WEST GEORGIA STREET
VANCOUVER B.C. V6B 5A1

*** Name/Address Changed on October 7, 2010 to:

Registering

Party: LINDSAY KENNEY LLP
1800 -401 WEST GEORGIA STREET
VANCOUVER B.C. V6B 5A1

----- R E N E W A L -----

Reg. #: 520929F Reg. Date: APR 23, 2010
Reg. Life: 5 YEARS Reg. Time: 12:05:42
Control #: B9923373
Base Reg. Type: PPSA SECURITY AGREEMENT
Base Reg. #: 447091C Base Reg. Date: JUL 06, 2005

Registering

Party: CANADIAN SECURITIES REGISTRATION
SYSTEMS
4126 NORLAND AVENUE
BURNABY BC V5G 3S8

PPRS SEARCH RESULT 2011-10-20

Search Criteria: STERLING SHOES LIMITED PARTNERSHIP

Page: 2

***** P P S A S E C U R I T Y A G R E E M E N T *****

Reg. Date: MAR 12, 2008
Reg. Time: 11:10:54
Base Reg. #: 238405E

Reg. Length: 5 YEARS
Expiry Date: MAR 12, 2013
Control #: B8603773

This registration was selected and included for your protection because of close proximity to your search criteria.

Block#

S0001 Secured Party: PATTISON SIGN GROUP, A DIVISION OF JIM
PATTISON INDUSTRIES LTD. .
555 ELLESMERE ROAD
TORONTO ON M1R 4E8

=D0001 Base Debtor: STERLING SHOES LP
 (Business) 2580 VISCOUNT WAY
 RICHMOND BC V6V 1N1

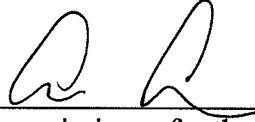
General Collateral:

SIGNAGE AS PER CONTRACT R2V859180 LOCATED AT WASHINGTON PARK
COURTNEY BC

Some, but not all, tax liens and other Crown claims are registered at the Personal Property Registry (PPR) and if registered, will be displayed on this search result. HOWEVER, it is possible that a particular chattel is subject to a Crown claim that is not registered at the PPR. Please consult the Miscellaneous Registrations Act, 1992 for more details. If you are concerned that a particular chattel may be subject to a Crown claim not registered at the PPR, please consult the agency administering the type of Crown claim.

[illegible]

This is **Exhibit "F"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of a stylized 'A' followed by a 'Q'.

A Commissioner for the taking Affidavits for
British Columbia

STERLING SHOES INC.

– and –

COMPUTERSHARE TRUST COMPANY OF CANADA

AMENDED AND RESTATED TRUST INDENTURE

Providing for the Issue
of Debentures

Dated June 30, 2010

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AMENDED AND RESTATED TRUST INDENTURE

THIS AMENDED AND RESTATED TRUST INDENTURE made as of the 30th day of June, 2010,

BETWEEN:

STERLING SHOES INC., a corporation governed by the Canada Business Corporations Act

(hereinafter referred to as the "Corporation")

AND:

COMPUTERSHARE TRUST COMPANY OF CANADA, a trust company authorized to carry on business in all Provinces of Canada

(hereinafter referred to as the "Debenture Trustee")

WITNESSES THAT:

WHEREAS Sterling Shoes Income Fund, an unincorporated trust established and governed by the laws of the Province of British Columbia (the "Fund") entered into a trust indenture (the "Fund Indenture") dated October 3, 2007 providing for the issue of the Debentures hereinafter referred to;

AND WHEREAS by a plan of arrangement (the "Plan of Arrangement") among the Corporation, Sterling Shoes Income Fund, SS Holdings Trust, Sterling Shoes Limited Partnership, Sterling Shoes GP Inc. and SSI Investments Inc. approved by the unitholders of the Fund on June 24, 2010 and by the Supreme Court of British Columbia on June 25, 2010, on the Effective Time ("Effective Time" as defined in the Plan of Arrangement) the Corporation will acquire all of the units of the Fund and the exchangeable units of Sterling Shoes Limited Partnership and associated special voting units of the Fund, the Corporation assume all of the Fund's obligations under the Fund Indenture and the Fund will be released therefrom and subsequently be terminated and dissolved.

AND WHEREAS the Plan of Arrangement provides that right to vote the units of the Fund shall not be acquired by the Corporation and holders of units of the Fund will retain the right to vote such units until the Fund is terminated and dissolved.

AND WHEREAS by this Amended and Restated Indenture, the Corporation agrees to assume all of the covenants and obligations of the Fund under the Fund Indenture, the Debentures and any other agreement in connection with the Fund Indenture including, but not limited to the obligation to make due and punctual payment of all amounts with respect to the Debentures;

AND WHEREAS the Corporation, under the laws relating thereto, is duly authorized to assume the obligations of the Fund under the Debentures as provided for in the Fund Indenture;

AND WHEREAS, all necessary steps in relation to the assumption of the obligations of the Fund under the Fund Indenture and the Debentures by the Corporation and for the Corporation to

become a Successor ("Successor" as defined in the Fund Indenture) have been duly satisfied to make the Debentures hereunder legal, valid and binding on the Corporation;

AND WHEREAS the Corporation and the Debenture Trustee are entering into this Amended and Restated Indenture as an indenture supplemental to the Fund Indenture for the purpose of evidencing the succession of the Corporation to the Fund and the covenants and obligations assumed by the Corporation under and in accordance with the provisions of the Fund Indenture;

AND WHEREAS the foregoing recitals are made as representations and statements of fact by the Corporation and not by the Debenture Trustee;

NOW THEREFORE it is hereby covenanted, agreed and declared as follows:

ARTICLE 1 INTERPRETATION AND ASSUMPTION OF OBLIGATIONS

1.1 Definitions

In this Indenture and in the Debentures, unless there is something in the subject matter or context inconsistent therewith, the expressions following shall have the following meanings, namely:

- (a) "this Indenture", "hereto", "herein", "hereby", "hereunder", "hereof" and similar expressions refer to this Indenture and not to any particular Article, Section, subsection, clause, subdivision or other portion hereof and include any and every instrument supplemental or ancillary hereto;
- (b) "Additional Debentures" means Debentures of any one or more series, other than the first series of Debentures being the Initial Debentures, issued under this Indenture;
- (c) "Affiliate" has the meaning ascribed thereto in National Instrument 45-106 "Prospectus and Registration Exemptions" of the Canadian Securities Administrators and, in the case of the Debenture Trustee, shall include Computershare Investor Services Inc;
- (d) "Applicable Securities Legislation" means applicable securities laws (including rules, regulations, policies and instruments) in each of the Provinces of Canada;
- (e) "Associate" has the meaning set forth in the *Securities Act* (British Columbia);
- (f) "Beneficial Holder" means any Person who holds a beneficial interest in a Global Debenture as shown on the books of the Depository or a Depository Participant;
- (g) "Business Day" means any day other than a Saturday, Sunday or a statutory holiday in the City of Vancouver, British Columbia;
- (h) "CBCA" means the *Canada Business Corporations Act*, R.S.A. 1985, c. C-44 as amended, including the regulations promulgated thereunder;
- (i) "Certificate of the Corporation" means a written certificate signed by any one of the President or Chief Financial Officer of the Corporation
- (j) "Change of Control" means the acquisition by any Person, or group of Persons acting jointly or in concert, of voting control of or direction over an aggregate of 66 2/3% or

more of the issued and outstanding Shares (after giving effect to the conversion or exchange of securities convertible into, exchangeable for or otherwise carrying the right to acquire Shares);

- (k) **"Conversion Price"** means the dollar amount for which each Share may be issued from time to time upon the conversion of Debentures or any series of Debentures which are by their terms convertible in accordance with the provisions of Article 6;
- (l) **"Corporation"** means Sterling Shoes Inc., a corporation formed under the Canada Business Corporations Act and includes any successor to or of the Corporation which shall have complied with the provisions of Article 11;
- (m) **"Corporation's Auditors" or "Auditors of the Corporation"** means a nationally recognized independent firm of chartered accountants duly appointed as auditors of the Corporation;
- (n) **"Counsel"** means a barrister or solicitor or firm of barristers or solicitors retained or employed by the Debenture Trustee or retained or employed by the Corporation and acceptable to the Debenture Trustee, acting reasonably;
- (o) **"Current Market Price"** means, on any day, the volume weighted average trading price per Share on the Toronto Stock Exchange (or, if the Shares are not listed thereon, on such stock exchange on which the Shares are listed as may be selected for such purpose by a duly authorized Director and approved by the Debenture Trustee, or if the Shares are not listed on any stock exchange, then on the over-the-counter market) for the 20 consecutive trading days ending on the fifth trading day preceding the date of determination;
- (p) **"Date of Conversion"** has the meaning ascribed thereto in Section 6.4(b);
- (q) **"Debentureholders" or "holders"** means the Persons for the time being entered in the register for Debentures as registered holders of Debentures;
- (r) **"Debenture Liabilities"** has the meaning ascribed thereto in Section 5.1;
- (s) **"Debentures"** means the debentures, notes or other evidence of indebtedness of the Corporation issued and certified hereunder, or deemed to be issued and certified hereunder, including, without limitation, the Initial Debentures, and for the time being outstanding, whether in definitive or interim form;
- (t) **"Declaration of Trust"** means the declaration of trust dated May 31, 2005 pursuant to which the Fund was created, as amended and restated on July 11, 2005, and any amendments thereto;
- (u) **"Depository"** means, with respect to the Debentures of any series issuable or issued in the form of one or more Global Debentures, the Person designated as depository by the Corporation pursuant to Section 2.6(a) until a successor depository shall have become such pursuant to the applicable provisions of this Indenture, and thereafter **"Depository"** shall mean each Person who is then a depository hereunder, and if at any time there is more than one such Person, **"Depository"** as used with respect to the Debentures of any series shall mean each depository with respect to the Global Debentures of such series

and, in the case of the Initial Debentures, the Depository shall initially be CDS Clearing and Depository Services Inc. ("CDS");

- (v) **"Depository Participant"** means a broker, dealer, bank, other financial institution or other person for whom from time to time, a Depository effects book entries for a Global Debenture deposited with the Depository;
- (w) **"Directors"** means the directors of the Corporation on the date hereof or such directors as may, from time to time, be appointed directors of the Corporation pursuant to Section 260 of the CBCA and **"Director"** means any one of them;
- (x) **"Effective Time"** has the meaning provided for in the recitals hereto;
- (y) **"Event of Default"** has the meaning ascribed thereto in Section 8.1;
- (z) **"Extraordinary Resolution"** has the meaning ascribed thereto in Section 13.12;
- (aa) **"Freely Tradeable"** means, in respect of securities of any class of any corporation which: (i) are issued under a prospectus; or (ii) are issuable without the necessity of filing a prospectus or any other similar offering document (other than such prospectus or similar offering document that has already been filed) under Applicable Securities Legislation and can be traded by the holder thereof without any resale restriction or hold period under Applicable Securities Legislation, except in the case of a distribution that is a "control distribution" as such term is defined in National Instrument 45-102 of the Canadian Securities Administrators or any successor instrument or legislation thereto;
- (bb) **"Fully Registered Debentures"** means Debentures registered as to both principal and interest;
- (cc) **"Fund"** has the meaning provided for in the recitals hereto;
- (dd) **"Fund Indenture"** has the meaning provided for in the recitals hereto;
- (ee) **"generally accepted accounting principles"** means generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants;
- (ff) **"Global Debenture"** means a Debenture that is issued to and registered in the name of the Depository, or its nominee, pursuant to Section 2.6 for purposes of being held by or on behalf of the Depository as custodian for the Depository Participants;
- (gg) **"Government Obligations"** means short-term interest bearing or discount debt obligations issued or guaranteed by the Government of Canada or any province thereof or a Canadian chartered bank as directed by the Corporation, provided that such obligation is rated at least R1 (middle) by DBRS Inc. or an equivalent rating service;
- (hh) **"Initial Debentureholders"** means the Persons for the time being entered into the register of Debentures as registered holders of the Initial Debentures;
- (ii) **"Initial Debentures"** means the Debentures designated as "6.5% Convertible Unsecured Subordinated Debentures" and described in Section 2.4;

- (jj) **"Interest Account"** has the meaning ascribed thereto in Section 10.1(h);
- (kk) **"Interest Obligation"** means the obligation of the Corporation to pay interest on the Debentures, as and when the same becomes due;
- (ll) **"Interest Payment Date"** means a date specified in a Debenture as the date on which an instalment of interest on such Debenture shall become due and payable;
- (mm) **"Maturity Account"** means an account or accounts required to be established by the Corporation (and which shall be maintained by and subject to the control of the Debenture Trustee) for each series of Debentures pursuant to and in accordance with this Indenture;
- (nn) **"Maturity Date"** has the meaning ascribed thereto in Section 4.10(a);
- (oo) **"Maturity Notice"** has the meaning ascribed thereto in Section 2.4(f);
- (pp) **"Offer"** has the meaning ascribed thereto in Section 2.4(j)(i);
- (qq) **"Offer Price"** has the meaning ascribed thereto in Section 2.4(j)(i);
- (rr) **"Offering"** means the public offering by short form prospectus dated September 25, 2007 of \$25,000,000 in aggregate principal amount of Initial Debentures;
- (ss) **"Office"** means an office of the Corporation maintained or designated pursuant to this Indenture;
- (tt) **"Periodic Offering"** means an offering of Debentures of a series from time to time, the specific terms of which Debentures, including, without limitation, the rate or rates of interest, if any, thereon, the stated maturity or maturities thereof and the redemption and conversion provisions, if any, with respect thereto, are to be determined by the Corporation upon the issuance of such Debentures from time to time;
- (uu) **"Person"** means any individual, partnership, limited partnership, association, body corporate, trust, joint venture, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;
- (vv) **"Plan of Arrangement"** has the meaning provided for in the recitals hereto;
- (ww) **"Proceedings"** means any action, suit, remedy or proceeding (whether judicial or extra-judicial) against the Corporation or any of its Subsidiaries, or any of their respective property, assets or undertaking, to collect or enforce payment of the principal of, premium, if any, and interest on any or all of the Debentures or any other amounts owing under the Debentures or this Indenture or to enforce performance of any other covenants or obligations of the Corporation under this Indenture or any or all of the Debentures (including, without limitation, any action or proceedings for payment under the Debentures, the appointment of a liquidator or receiver of the Corporation or any of its Subsidiaries or any of its property, assets or undertaking or the winding up of the Corporation or any of its Subsidiaries or any proceeding to petition the Corporation or any of its Subsidiaries into bankruptcy);

- (xx) **"Redemption Date"** has the meaning attributed thereto in Section 4.3;
- (yy) **"Redemption Notice"** has the meaning attributed thereto in Section 4.3;
- (zz) **"Redemption Price"** means, in respect of a Debenture, the amount, excluding interest, payable on the Redemption Date fixed for such Debenture, which amount may be payable by the issuance of Freely Tradeable Shares as provided for in Section 4.6;
- (aaa) **"Senior Credit Agreements"** means:
 - (i) the senior secured extendible revolving credit facility in the principal amount of \$15 million;
 - (ii) the senior secured extendible revolving term credit term facility in the principal amount of \$5 million; and

each dated December 11, 2009 between Sterling Shoes Limited Partnership as borrower and the Bank of Montreal as lender, as the same may be modified, amended, revised, restated and replaced from time to time and at any time;

- (bbb) **"Senior Creditor"** means a holder or holders of Senior Indebtedness and includes any representative or representatives or trustee or trustees of any such holder or holders;
- (ccc) **"Senior Indebtedness"** shall mean the principal of and the interest and premium (or any other amounts payable thereunder), if any, on and any costs, expenses and indemnities arising out of or relating to:
 - (i) all indebtedness (including any indebtedness to trade creditors), liabilities and obligations of the Corporation and its Subsidiaries (other than the Initial Debentures), whether outstanding on the date of this Indenture or hereafter created, incurred, assumed or guaranteed in connection with the acquisition by the Corporation, any of its Subsidiaries or others of any businesses, properties or other assets or for monies borrowed or raised by whatever means (including, without limitation, by means of commercial paper, bankers' acceptances, letters of credit, debt instruments, bank debt and financial leases, and any liability evidenced by bonds, debentures, notes or similar instruments), the payment of which the Corporation is responsible or liable, whether absolutely or contingently;
 - (ii) all indebtedness, liabilities and obligations under the guarantee(s) now or at any time hereafter granted by the Corporation or any of its Subsidiaries in respect of the obligations, liabilities and indebtedness under the Senior Credit Agreements; and
 - (iii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations;

unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to Debentures, which by their terms are subordinated;

- (ddd) **"Senior Security"** means all mortgages, liens, pledges, charges (whether fixed or floating), security interests or other encumbrances of any kind, contingent or absolute, held by or on behalf of any Senior Creditor and in any manner securing any Senior Indebtedness;
- (eee) **"Shareholders"** means the holders from time to time of the Shares;
- (fff) **"Shares"** means the common shares of the Corporation, as such common shares are constituted on the date of execution and delivery of this Indenture; provided that in the event of a change or a subdivision, revision, reduction, combination or consolidation thereof, any reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale or conveyance or liquidation, dissolution or winding-up, or such other similar transaction, or such successive changes, subdivisions, redivisions, reductions, combinations or consolidations, reclassifications, capital reorganizations, consolidations, amalgamations, arrangements, mergers, sales or conveyances or liquidations, dissolutions or windings-up, then, subject to adjustments, if any, having been made in accordance with the provisions of Section 6.5, **"Shares"** shall mean the shares or other securities or property resulting from such change, subdivision, redivision, reduction, combination or consolidation, reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, sale or conveyance or liquidation, dissolution or winding-up or such other similar transaction;
- (ggg) **"Share Bid Request"** means a request for bids to purchase Shares (to be issued by the Corporation on the Share Delivery Date) made by the Debenture Trustee in accordance with the Share Interest Payment Election Notice and which shall make the acceptance of any bid conditional upon the acceptance of sufficient bids to result in aggregate proceeds from such issue and sale of Shares which, together with the cash payments by the Corporation in lieu of fractional Shares, if any, equal the Share Interest Payment Election Amount;
- (hhh) **"Share Delivery Date"** means a date, not more than 90 days and not less than one Business Day prior to the applicable Interest Payment Date, upon which Shares are issued by the Corporation and delivered to the Debenture Trustee for sale pursuant to Share Purchase Agreements;
- (iii) **"Share Interest Payment Election"** means an election to satisfy an Interest Obligation on the applicable Interest Payment Date by delivery of sufficient Shares to the Debenture Trustee to satisfy all or any part of the Interest Obligation in accordance with this Indenture;
- (iii) **"Share Interest Payment Election Amount"** means the aggregate amount of the Interest Obligation in respect of which the Share Interest Payment Election Notice was delivered;
- (kkk) **"Share Interest Payment Election Notice"** means a written notice given by the Corporation to the Debenture Trustee:
- (i) stating that it is making a Share Interest Payment Election;
 - (ii) specifying the Interest Obligation to which the election relates;
 - (iii) specifying the Share Interest Payment Election Amount;

- (iv) directing the Debenture Trustee to seek bids to purchase Shares in accordance with Article 10, and specifying the conditions of such bids, which may include the minimum number of Shares, minimum price per Share, timing for closing for bids and such other matters as the Corporation may specify;
 - (v) designating the investment banks, brokers or dealers through which the Debenture Trustee is to seek bids;
 - (vi) directing the Debenture Trustee to accept through the investment banks, brokers or dealers selected by the Corporation only those bids which comply with such notice; and
 - (vii) specifying the Share Delivery Date;
- (III) "Share Proceeds Investment" has the meaning attributed thereto in Section 10.1(h);
- (mmm) "Share Purchase Agreement" means an agreement in customary form among the Corporation, the Debenture Trustee and the Persons making acceptable bids pursuant to a Share Bid Request, which complies with all applicable laws, including the Applicable Securities Legislation and the rules and regulations of any stock exchange on which the Debentures or Shares are then listed;
- (nnn) "Share Redemption Right" has the meaning attributed thereto in Section 4.6(a);
- (ooo) "Share Repayment Right" has the meaning attributed thereto in Section 4.10(a);
- (ppp) "Subsidiary" has the meaning ascribed thereto in the *Securities Act* (British Columbia) and, in relation to the Corporation, and any legal entity of which more than 50% of the outstanding voting securities are owned, directly or indirectly, by or for the Corporation, provided that the ownership of such securities confers the right to elect at least a majority of the board of directors of such legal entity and includes any legal entity in like relation to a Subsidiary;
- (qqq) "Sterling Shoes LP" means Sterling Shoes Limited Partnership, a limited partnership established under the laws of the Province of Manitoba, a Subsidiary of the Corporation;
- (rrr) "Tax Act" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;
- (sss) "Time of Expiry" means the time of expiry of certain rights with respect to the conversion of Debentures under Article 6 which is to be set forth for each series of Debentures which by their terms are to be convertible;
- (ttt) "Total Offer Price" has the meaning ascribed thereto in Section 2.4(j)(i);
- (uuu) "trading day" means, with respect to the Toronto Stock Exchange or other market for securities, any day on which such exchange or market is open for trading or quotation;
- (vvv) "Underwriters" means, with respect to the Initial Debentures, CIBC World Markets Inc., BMO Nesbitt Burns Inc., Canaccord Capital Corporation and TD Securities Inc. and, with respect to any Additional Debentures of the Corporation, those Persons or that

Person that agrees to purchase, as a security issue, on a fixed date at a fixed price, Additional Debentures of the Corporation with a view to public distribution of such Additional Debentures;

(www) "Written Direction of the Corporation" means an instrument in writing signed by any one of the President or Chief Financial Officer of the Corporation.

1.2 Meaning of "Outstanding"

Every Debenture certified and delivered by the Debenture Trustee hereunder shall be deemed to be outstanding until it is cancelled, converted or redeemed or delivered to the Debenture Trustee for cancellation, conversion or redemption for monies and/or Shares, as the case may be, for the payment thereof shall have been set aside under Section 9.2, provided that:

- (a) Debentures which have been partially redeemed, purchased or converted shall be deemed to be outstanding only to the extent of the unredeemed, unpurchased or unconverted part of the principal amount thereof;
- (b) when a new Debenture has been issued in substitution for a Debenture which has been lost, stolen or destroyed, only one of such Debentures shall be counted for the purpose of determining the aggregate principal amount of Debentures outstanding; and
- (c) for the purposes of any provision of this Indenture entitling holders of outstanding Debentures to vote, sign consents, requisitions or other instruments or take any other action under this Indenture, or to constitute a quorum of any meeting of Debentureholders, Debentures owned directly or indirectly, legally or equitably, by the Corporation or a Subsidiary of the Corporation shall be disregarded except that:
 - (i) for the purpose of determining whether the Debenture Trustee shall be protected in relying on any such vote, consent, acquisition or other instrument or action, or on the holders of Debentures present or represented at any meeting of Debentureholders, only the Debentures which the Debenture Trustee knows are so owned shall be so disregarded; and
 - (ii) Debentures so owned shall not be disregarded if they are the only Debentures outstanding.

1.3 Interpretation

In this Indenture:

- (a) words importing the singular number or masculine gender shall include the plural number or the feminine or neuter genders, and vice versa;
- (b) all references to Articles and Schedules refer, unless otherwise specified, to articles of and schedules to this Indenture;
- (c) all references to Sections refer, unless otherwise specified, to sections, subsections or clauses of this Indenture; and

- (d) words and terms denoting inclusiveness (such as "include" or "includes" or "including"), whether or not so stated, are not limited by and do not imply limitation of their context or the words or phrases which precede or succeed them.

1.4 Headings, etc.

The division of this Indenture into Articles and Sections, the provision of a Table of Contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Indenture or of the Debentures.

1.5 Day not a Business Day

In the event that any day on or before which any action required to be taken hereunder is not a Business Day, then such action shall be required to be taken on or before the requisite time on the next succeeding day that is a Business Day.

1.6 Applicable Law

This Indenture and the Debentures shall be construed in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein and shall be treated in all respects as British Columbia contracts.

1.7 Monetary References

Whenever any amounts of money are referred to herein, such amounts shall be deemed to be in lawful money of Canada unless otherwise expressed.

1.8 Invalidity, etc.

Any provision hereof which is prohibited or unenforceable shall be ineffective only to the extent of such prohibition or unenforceability, without invalidating the remaining provisions hereof.

1.9 Language

Each of the parties hereto hereby acknowledges that it has consented to and requested that this Indenture and all documents relating thereto, including, without limiting the generality of the foregoing, the form of Initial Debenture attached hereto as Schedule A, be drawn up in the English language only.

Les parties aux présentes ont exigé que la présente convention ainsi que tous les documents et avis qui s'y rattachent et/ou qui en découleront soient rédigés en langue anglaise.

1.10 Successors and Assigns

All covenants and agreements in this Indenture by the Corporation shall bind its successors and assigns, whether expressed or not.

1.11 Benefits of Indenture

Nothing in this Indenture or in the Debentures, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any paying agent, the holders of

Debentures, the Directors and (to the extent provided in Sections 1.13 and 8.11) the holders of Shares, any benefit or any legal or equitable right, remedy or claim under this Indenture.

1.12 Force Majeure

Except for the payment obligations of the Corporation contained herein, neither party shall be liable to the other, or held in breach of this Indenture, if prevented, hindered, or delayed in the performance or observance of any provision contained herein by reason of act of God, riots, terrorism, acts of war, epidemics, governmental action or judicial order, earthquakes, or any other similar causes (including, but not limited to, mechanical, electronic or communication interruptions, disruptions or failures). Performance times under this Indenture shall be extended for a period of time equivalent to the time lost because of any delay that is excusable under this Section.

1.13 Assumption of Obligations

The Corporation hereby assumes all the covenants and obligations of the Fund under the Fund Indenture, the Debentures and any other agreement in connection with the Fund Indenture, including, but not limited to, assuming the obligation to make due and punctual payment of all amounts with respect to the Debentures; and represents and warrants to the Debenture Trustee that:

- (a) the Debentures are valid, binding and continuing obligations of the Corporation entitling the holders thereof, as against the Corporation to all the rights and remedies of Debentureholders under the Fund Indenture; and
- (b) no condition or event shall exist as to the Fund (at the Effective Time) or the Corporation (immediately after the Effective Time) and after giving full effect the Plan of Arrangement or immediately after the Corporation shall become liable to pay the principal monies, premium, if any, interest and other monies due or which may become due hereunder, which constitutes or would constitute an Event of Default hereunder.

1.14 Issue of Shares in Lieu of Units of the Fund

As the transactions contemplated by the Plan of Arrangement constitute a consolidation, arrangement or merger of the Fund with or into the Corporation, or a sale or conveyance of the property and assets of the Fund as an entirety or substantially as an entirety to the Corporation or the liquidation, dissolution or winding-up of the Fund, the Corporation agrees that the provisions of Section 2.4(e) and Article 6 of the Fund Indenture are applicable to the Corporation and the Shares so that any holder of a Debenture who has not exercised its right of conversion prior to the Effective Time, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of units of the Fund then sought to be acquired by it, the same number of Shares, as if, at the Effective Time the holder of a Debenture had been the registered holder of the number of units of the Fund sought to be acquired by it and to which it was entitled to acquire upon the exercise of the conversion right.

ARTICLE 2 THE DEBENTURES

2.1 Limit of Debentures

The aggregate principal amount of Debentures authorized to be issued under this Indenture is unlimited, but Debentures may be issued only upon and subject to the conditions and limitations herein set forth.

2.2

Terms of Debentures of any Series

The Debentures may be issued in one or more series. There shall be established herein or in or pursuant to one or more indentures supplemental hereto, prior to the initial issuance of Debentures of any particular series:

- (a) the designation of the Debentures of the series (which need not include the term "Debentures"), which shall distinguish the Debentures of the series from the Debentures of all other series;
- (b) any limit upon the aggregate principal amount of the Debentures of the series that may be certified and delivered under this Indenture (except for Debentures certified and delivered upon registration of, transfer of, amendment of, or in exchange for, or in lieu of, other Debentures of the series pursuant to Sections 2.9, 2.10, 3.2, 3.3, and 3.6);
- (c) the date or dates on which the principal of the Debentures of the series is payable;
- (d) the rate or rates at which the Debentures of the series shall bear interest, if any, the date or dates from which such interest shall accrue, on which such interest shall be payable and on which a record, if any, shall be taken for the determination of holders to whom such interest shall be payable and/or the method or methods by which such rate or rates or date or dates shall be determined;
- (e) the place or places where the principal of and any interest on Debentures of the series shall be payable or where any Debentures of the series may be surrendered for registration of transfer or exchange;
- (f) the rights, if any, of the Corporation to redeem Debentures of the series, in whole or in part, at its option and the period or periods within which, the price or prices at which and any terms and conditions upon which, Debentures of the series may be so redeemed, pursuant to any sinking fund or otherwise;
- (g) the obligation, if any, of the Corporation to redeem, purchase or repay Debentures of the series pursuant to any mandatory redemption, sinking fund or analogous provisions or at the option of a holder thereof and the price or prices at which, the period or periods within which, the date or dates on which, and any terms and conditions upon which, Debentures of the series shall be redeemed, purchased or repaid, in whole or in part, pursuant to such obligations;
- (h) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which Debentures of the series shall be issuable;
- (i) subject to the provisions of this Indenture, any trustee, Depositories, authenticating or paying agents, transfer agents or registrars or any other agents with respect to the Debentures of the series;
- (j) any other events of default or covenants with respect to the Debentures of the series not otherwise described in this Indenture;
- (k) whether and under what circumstances the Debentures of the series will be convertible into or exchangeable for securities of any Person, including the Corporation;

- (l) the form and terms of the Debentures of the series;
- (m) if applicable, that the Debentures of the series shall be issuable in whole or in part as one or more Global Debentures and, in such case, the Depository or Depositories for such Global Debentures in whose name the Global Debentures will be registered, and any circumstances other than or in addition to those set forth in Section 2.9 or 3.2 or those applicable with respect to any specific series of Debentures, as the case may be, in which any such Global Debenture may be exchanged for Fully Registered Debentures, or transferred to and registered in the name of a person other than the Depository for such Global Debentures or a nominee thereof;
- (n) if other than Canadian currency, the currency in which the Debentures of the series are issuable; and
- (o) any other terms of the Debentures of the series (which terms shall not be inconsistent with the provisions of this Indenture).

All Debentures of any one series shall be substantially identical, except as may otherwise be established herein or by or pursuant to a resolution of the Directors, Certificate of the Corporation or in an indenture supplemental hereto. All Debentures of any one series need not be issued at the same time and may be issued from time to time, including pursuant to a Periodic Offering, consistent with the terms of this Indenture, if so provided herein, by or pursuant to such resolution of the Directors, Certificate of the Corporation or in an indenture supplemental hereto.

2.3 Form of Debentures

Except in respect of the Initial Debentures, the form of which is provided for herein, the Debentures of each series shall be substantially in such form or forms (not inconsistent with this Indenture) as shall be established herein or by or pursuant to one or more resolutions of the Directors (as set forth in a resolution of the Directors or to the extent established pursuant to, rather than set forth in, a resolution of the Directors, in a Certificate of the Corporation detailing such establishment) or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Indenture, as may be required to comply with any law (including Applicable Securities Legislation) or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform to general usage, all as may be determined by the Director executing such Debentures, as conclusively evidenced by his or her execution of such Debentures. The Debenture Trustee shall not be required to ensure compliance with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform to general usage in connection with the issue, transfer or exchange of the Debentures. The responsibility for compliance with the foregoing shall be that of the Corporation or the holder, as applicable.

2.4 Form and Terms of Initial Debentures

- (a) The first series of Debentures (the "Initial Debentures") authorized for issue immediately is limited to an aggregate principal amount of \$25,000,000 and shall be designated as "6.50% Convertible Unsecured Subordinated Debentures".

- (b) The Initial Debentures shall be dated as of the date of closing of the Offering and will be issuable only in denominations of \$1,000 and integral multiples thereof. The Initial Debentures shall mature on October 31, 2012. The Initial Debentures shall bear interest from and including the date of issue at the rate of 6.50% per annum, payable semi-annually in arrears on October 31 and April 30 in each year, the first such payment to fall due, subject as hereinafter provided, on April 30, 2008 and the last such payment (representing interest payable from and including the last Interest Payment Date to, but excluding, the Maturity Date or the earlier date of redemption of the Initial Debentures), subject as hereinafter provided, to fall due on the Maturity Date or the earlier date of redemption, payable after as well as before maturity and after as well as before default, with interest on amounts in default at the same rate, compounded semi-annually. For certainty, the first interest payment will include interest accrued from and including October 3, 2007 to, but excluding April 30, 2008, which will be equal to \$37.2950819672 for each \$1,000 principal amount of the Initial Debentures.
- (c) The Initial Debentures will be redeemable at the option of the Corporation in accordance with the terms of Article 4, provided that the Initial Debentures will not be redeemable on or before October 31, 2010, except in the event of the satisfaction of certain conditions after a Change of Control has occurred as outlined herein. After October 31, 2010 and on or before October 31, 2011, the Initial Debentures may be redeemed at the option of the Corporation in whole or in part from time to time on notice as provided for in Section 4.3 at a Redemption Price equal to the principal amount thereof to be redeemed; provided that the Current Market Price on the date on which such notice of redemption is given is at least 125% of the Conversion Price and the Corporation shall have provided to the Debenture Trustee a Certificate of the Corporation confirming such Current Market Price. In addition thereto, at the time of redemption, the Corporation shall pay to the holder accrued and unpaid interest from and including the last Interest Payment Date to, but excluding, the Redemption Date. After October 31, 2011 and prior to the Maturity Date, the Debentures may be redeemed at the option of the Corporation in whole or in part from time to time on notice as provided for in Section 4.3 at a price equal to their principal amount plus accrued and unpaid interest to but excluding the Redemption Price. The Redemption Notice for the Initial Debentures shall be substantially in the form of Schedule B. In connection with the redemption of the Initial Debentures, the Corporation may, at its option and subject to and in accordance with the provisions of Section 4.6 and subject to regulatory approval, elect to satisfy its obligation to pay all or a portion of the aggregate principal amount of the Initial Debentures to be redeemed by issuing and delivering to the holders of such Initial Debentures, such number of Freely Tradeable Shares as is obtained by dividing the aggregate Redemption Price of the outstanding Initial Debentures which are to be redeemed by 95% of the Current Market Price in effect on the Redemption Date; provided that no fractional Shares will be issued on such redemption but in lieu thereof the Corporation shall satisfy such fractional interests by a cash payment equal to the Current Market Price of a fractional interest. If the Corporation elects to exercise such option, the Redemption Notice shall include the provisions set out in the last three paragraphs of Schedule B. Interest accrued and unpaid on the Initial Debentures on the Redemption Date will be paid to holders of Initial Debentures, in cash, in the manner contemplated in Section 4.5.
- (d) The Initial Debentures will be direct unsecured obligations of the Corporation and will be subordinated to the prior payment in full of all Senior Indebtedness in accordance with the provisions of Article 5.

- (e) Upon and subject to the provisions and conditions of Article 6, the holder of each Initial Debenture shall have the right at such holder's option, at any time prior to the earlier of: (i) the close of business on the Maturity Date; or (ii) if called for redemption, the last Business Day immediately preceding the Redemption Date specified by the Corporation for redemption of the Initial Debentures by notice to the holders of Initial Debentures in accordance with Sections 2.4(c) and 4.3 (the earlier of which will be the "Time of Expiry" for the purposes of Article 6 in respect of the Initial Debentures), to convert the whole or, in the case of an Initial Debenture of a denomination in excess of \$1,000, any part which is \$1,000 or an integral multiple thereof, of the principal amount of a Debenture into Shares at the Conversion Price in effect on the Date of Conversion (as defined in Section 6.4(b)).

The Conversion Price in effect on the date hereof for each Share to be issued upon the conversion of Initial Debentures shall be equal to \$21.15 being a conversion rate of approximately 47.281 Shares for each \$1,000 principal amount of Initial Debentures so converted. No adjustment in the number of Shares to be issued upon conversion will be made for distributions on Shares issuable upon conversion or for interest accrued on Initial Debentures surrendered for conversion. Holders converting their Initial Debentures will receive interest which has accrued but not been paid from the most recently completed Interest Payment Date to, but excluding, the Date of Conversion. The Conversion Price applicable to, and the Shares, securities or other property receivable on the conversion of, the Initial Debentures is subject to adjustment pursuant to the provisions of Section 6.5.

- (f) On maturity of the Initial Debentures, the Corporation may, at its option and subject to and in accordance with Section 4.10 and subject to regulatory approval, elect to satisfy its obligation to pay all or a portion of the aggregate principal amount of the Initial Debentures due at maturity by issuing and delivering to such holders of Initial Debentures, such number of Freely Tradeable Shares as is obtained by dividing the aggregate Redemption Price of the outstanding Debentures which are to be repaid by 95% of the Current Market Price in effect on the Maturity Date, provided that no fractional Shares will be issued but in lieu thereof the Corporation shall satisfy such fractional interests by a cash payment equal to the Current Market Price of a fractional interest. If the Corporation elects to exercise such option, it shall deliver to the holders of such Initial Debentures a maturity notice (the "Maturity Notice") in the form of Schedule C. Interest accrued and unpaid on the Debentures on the the Maturity Date will be paid to holders of Debentures in cash.
- (g) The Initial Debentures shall be issued in denominations of \$1,000 and integral multiples of \$1,000. Each Initial Debenture and the certificate of the Debenture Trustee endorsed thereon shall be issued in substantially the form set out in Schedule A, with such insertions, omissions, substitutions or other variations as shall be required or permitted by this Indenture, and may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform with general usage, all as may be determined by the Directors executing such Initial Debenture in accordance with Section 2.7 hereof, as conclusively evidenced by their execution of an Initial Debenture. Each Initial Debenture shall additionally bear such distinguishing letters and numbers as the Debenture Trustee shall approve. Notwithstanding the foregoing, an Initial Debenture may be in such other form or forms

as may, from time to time, be, approved by a resolution of the Directors or as specified in a Certificate of the Corporation as the Debenture Trustee may approve, such approval not to be unreasonably withheld. The Initial Debentures may be engraved, lithographed, printed, mimeographed or typewritten or partly in one form and partly in another.

The Initial Debentures shall be issued as Global Debentures and the Global Debentures will be registered in the name of the Depository (or any nominee of the Depository). No beneficial holder will receive definitive certificates representing their interest in Debentures except as provided in Section 3.2.

- (h) Subject to the provisions and conditions of Article 10, the Corporation may elect, from time to time, to satisfy its Interest Obligation on the Initial Debentures on any Interest Payment Date (or on redemption or maturity) by delivering Shares to the Debenture Trustee.
- (i) If a takeover bid for Initial Debentures, within the meaning of the *Securities Act* (British Columbia) is made and 90% or more of the principal amount of all the Initial Debentures (other than Initial Debentures held at the date of the takeover bid by or on behalf of the offeror, Associates or Affiliates of the offeror or anyone acting jointly or in concert with the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Initial Debentures of those holders who did not accept the offer on the same terms as the offeror acquired the first 90% of the principal amount of the Initial Debentures. Any acquisition of Initial Debentures under this Section 2.4(i) will be made in accordance with Article 12 as if the takeover bid for Initial Debentures were a "Debenture Offer" within the meaning of Article 12.
- (j) Within 30 days following the occurrence of a Change of Control, and subject to the provisions and conditions of this Section 2.4(j), the Corporation shall be obligated to offer to purchase the Initial Debentures. The terms and conditions of such obligation are set forth below:
 - (i) Within 30 days following the occurrence of a Change of Control, the Corporation shall deliver to the Debenture Trustee, and the Debenture Trustee shall promptly deliver to the holders of the Initial Debentures a notice stating that there has been a Change of Control and specifying the circumstances surrounding such event (a "Change of Control Notice") together with an offer in writing (the "Offer") to purchase all then outstanding (in whole or in part) Initial Debentures made in accordance with the requirements of Applicable Securities Legislation at a price equal to 101% of the principal amount thereof (the "Offer Price") plus accrued and unpaid interest, if any, on such Initial Debentures up to, but excluding, the date of acquisition by the Corporation of such Debentures (collectively, the "Total Offer Price") which Offer shall, unless otherwise provided under Applicable Securities Legislation, be open for acceptance thereof for a period of not less than 35 days and not more than 60 days and shall provide for payment to all Debentureholders who accept the Offer not later than the 60th day after the making of the Offer.

The Change of Control Notice shall specify (i) the provision of the Indenture pursuant to which the Offer is being made and that all Initial Debentures validly tendered will be accepted for payment; (ii) the Offer Price and date of acquisition by the Corporation; (iii) that any Initial Debenture not tendered will continue to

accrue interest in accordance with its terms; (iv) that any Initial Debenture accepted for payment pursuant to the Offer shall cease to accrue interest from and after the date of acquisition by the Corporation unless the Corporation defaults in the payment of the Offer Price; (v) that Debentureholders electing to have an Initial Debenture purchased pursuant to the Offer will be required to surrender the Initial Debenture to the Debenture Trustee at the address specified in the notice prior to the close of business on the Business Day immediately preceding the date of acquisition by the Corporation or, in the case of the Global Debenture, that the purchase will take place in such manner as may be agreed upon by the Depository, the Debenture Trustee and the Corporation and specified in the Offer; and (vi) that Debentureholders will be entitled to withdraw their election if the Debenture Trustee receives, not later than the close of business on the third Business Day immediately preceding the date of acquisition by the Corporation, a facsimile transmission or letter setting forth the name of such Debentureholder, the principal amount of Debentures delivered for purchase and a statement that such Debentureholder is withdrawing his or her election to have such Initial Debentures purchased.

- (ii) If 90% or more in aggregate principal amount of Initial Debentures outstanding on the date the Corporation provides the Change of Control Notice and the Offer to holders of the Initial Debentures have been tendered for purchase pursuant to the Offer on the expiration thereof, the Corporation has the right and obligation upon written notice provided to the Debenture Trustee within 10 days following the expiration of the Offer, to redeem and shall redeem all the Initial Debentures remaining outstanding on the expiration of the Offer at the Total Offer Price (the "90% Redemption Right").
- (iii) Upon receipt of notice that the Corporation has exercised or is exercising the 90% Redemption Right and is acquiring the remaining Initial Debentures, the Debenture Trustee shall promptly provide written notice to each Debentureholder that did not previously accept the Offer that:
 - (A) the Corporation has exercised the 90% Redemption Right and is purchasing all outstanding Initial Debentures effective on the expiry of the Offer at the Total Offer Price, and shall include a calculation of the amount payable to such holder as payment of the Total Offer Price;
 - (B) each such holder must transfer their Initial Debentures to the Debenture Trustee on the same terms as those holders that accepted the Offer and must send their respective Initial Debentures, duly endorsed for transfer, to the Debenture Trustee within 10 days after the sending of such notice; and
 - (C) the rights of such holder under the terms of the Initial Debentures and this Indenture cease to be effective as of the date of expiry of the Offer provided the Corporation has, on or before the time of notifying the Debenture Trustee of the exercise of the 90% Redemption Right, paid the Total Offer Price to, or to the order of, the Debenture Trustee and thereafter the Initial Debentures shall not be considered to be outstanding and the holder shall not have any right except to receive such holder's

Total Offer Price upon surrender and delivery of such holder's Initial Debentures in accordance with the Indenture.

The form of notice to be provided to each Debentureholder that did not previously accept the Offer shall be prepared by the Corporation or Counsel to the Corporation, and the Debenture Trustee shall not be responsible for calculating any amount payable to such holders.

- (iv) The Corporation shall, on or before 9:00 a.m. (Vancouver time) on the date of the expiry of the Offer, deposit with the Debenture Trustee or any paying agent to the order of the Debenture Trustee by electronic transfer or certified cheque, such sums of money as may be sufficient to pay the aggregate Offer Price of the Initial Debentures to be purchased or redeemed by the Corporation on the expiry of the Offer.
- (v) In the event that one or more of such Initial Debentures being purchased in accordance with this Section 2.4(j) becomes subject to purchase in part only, upon surrender of such Initial Debentures for payment of the Total Offer Price, the Corporation shall execute and the Debenture Trustee shall certify and deliver without charge to the holder thereof or upon the holder's order, one or more new Initial Debentures for the portion of the principal amount of the Initial Debentures not purchased.
- (vi) Initial Debentures for which holders have accepted the Offer and Initial Debentures which the Corporation has elected to redeem in accordance with this Section 2.4(j) shall become due and payable at the Total Offer Price on the date of expiry of the Offer, in the same manner and with the same effect as if it were the date of maturity specified in such Initial Debentures, anything therein or herein to the contrary notwithstanding, and from and after such date of expiry of the Offer, if the money necessary to purchase or redeem the Initial Debentures shall have been deposited as provided in this Section 2.4(j) and affidavits or other proofs satisfactory to the Debenture Trustee as to the publication and/or mailing of such notices shall have been lodged with it, interest on the Initial Debentures shall cease. If any question shall arise as to whether any notice has been given as above provided and such deposit made, such question shall be decided by the Debenture Trustee whose decision shall be final and binding upon all parties in interest.
- (vii) In case the holder of any Initial Debenture to be purchased or redeemed in accordance with this Section 2.4(j) shall fail on or before the date of expiry of the Offer to so surrender such holder's Initial Debenture or shall not within such time accept payment of the monies payable, or give such receipt therefor, if any, as the Debenture Trustee may require, such monies may be set aside in trust, either in the deposit department of the Debenture Trustee or in a chartered bank, and such setting aside shall for all purposes be deemed a payment to the Debentureholder of the sum so set aside and the Debentureholder shall have no other right except to receive payment of the monies so paid and deposited, upon surrender and delivery of such holder's Initial Debenture.
- (viii) In the event that any money required to be deposited hereunder with the Debenture Trustee or any depository or paying agent on account of principal,

premium, if any, or interest, if any, on Initial Debentures issued hereunder shall remain so deposited for a period of six years from the date of expiry of the Offer, then such monies, together with any accumulated interest thereon, shall at the end of such period be paid over or delivered over by the Debenture Trustee or such depository or paying agent to the Corporation and the Debenture Trustee shall not be responsible to Debentureholders for any amounts owing to them. Notwithstanding the foregoing, the Debenture Trustee will pay any remaining funds deposited hereunder prior to the expiry of six years after the date of expiry of the Offer to the Corporation upon receipt from the Corporation, or one of its Subsidiaries on behalf of the Corporation, of an uncontested letter of credit from a Canadian chartered bank in an amount equal to or in excess of the amount of the remaining funds. If the remaining funds are paid to the Corporation prior to the expiry of six years after the date of expiry of the Offer, the Corporation shall reimburse the Debenture Trustee for any amounts required to be paid by the Debenture Trustee to a holder of a Debenture pursuant to the Offer after the date of such payment of the remaining funds to the Corporation but prior to six years after the date of expiry of the Offer.

(ix) Subject to the provisions above related to Initial Debentures purchased in part, all Initial Debentures redeemed and paid under this Section 2.4(j) shall forthwith be delivered to the Debenture Trustee and cancelled and no Initial Debentures shall be issued in substitution therefor.

(k) The Debenture Trustee shall be provided with the documents and instruments referred to in Sections 2.5(b), (c) and (d) with respect to the Initial Debentures prior to the issuance of the Initial Debentures.

2.5 Certification and Delivery of Additional Debentures

The Corporation may from time to time request the Debenture Trustee to certify and deliver Additional Debentures of any series by delivering to the Debenture Trustee the documents referred to below in this Section 2.5 whereupon the Debenture Trustee shall certify such Debentures and cause the same to be delivered in accordance with the Written Direction of the Corporation referred to below or pursuant to such procedures acceptable to the Debenture Trustee as may be specified from time to time by a Written Direction of the Corporation. The maturity date, issue date, interest rate (if any) and any other terms of the Debentures of such series shall be set forth in or determined by or pursuant to such Written Direction of the Corporation and procedures. In certifying such Debentures, the Debenture Trustee shall be entitled to receive and shall be fully protected in relying upon, unless and until such documents have been superseded or revoked:

- (a) a Certificate of the Corporation and/or executed supplemental indenture by or pursuant to which the form and terms of such Additional Debentures were established;
- (b) a Written Direction of the Corporation requesting certification and delivery of such Additional Debentures and setting forth delivery instructions, provided that, with respect to Debentures of a series subject to a Periodic Offering:
 - (i) such Written Direction of the Corporation may be delivered by the Corporation to the Debenture Trustee prior to the delivery to the Debenture Trustee of such Additional Debentures of such series for certification and delivery;

- (ii) the Debenture Trustee shall certify and deliver Additional Debentures of such series for original issue from time to time, in an aggregate principal amount not exceeding the aggregate principal amount, if any, established for such series, pursuant to a Written Direction of the Corporation or pursuant to procedures acceptable to the Debenture Trustee as may be specified from time to time by a Written Direction of the Corporation;
 - (iii) the maturity date or dates, issue date or dates, interest rate or rates (if any) and any other terms of Additional Debentures of such series shall be determined by an executed supplemental indenture or by Written Direction of the Corporation or pursuant to such procedures; and
 - (iv) if provided for in such procedures, such Written Direction of the Corporation may authorize certification and delivery pursuant to electronic instructions from the Corporation;
- (c) an opinion of Counsel, in form and substance satisfactory to the Debenture Trustee, acting reasonably, to the effect that all requirements imposed by this Indenture or by law in connection with the proposed issue of Additional Debentures have been complied with, subject to the delivery of certain documents or instruments specified in such opinion; and
 - (d) a Certificate of the Corporation certifying that the Corporation is not in default under this Indenture, that the terms and conditions for the certification and delivery of Additional Debentures (including those set forth in Section 15.5), have been complied with subject to the delivery of any documents or instruments specified in such Certificate of the Corporation and that no Event of Default exists or will exist upon such certification and delivery.

2.6

Issue of Global Debentures

- (a) The Corporation may specify that the Debentures of a series are to be issued in whole or in part as one or more Global Debentures registered in the name of a Depository, or its nominee, designated by the Corporation in the Written Direction of the Corporation delivered to the Debenture Trustee at the time of issue of such Debentures, and in such event the Corporation shall execute and the Debenture Trustee shall certify and deliver one or more Global Debentures that shall:
 - (i) represent an aggregate amount equal to the principal amount of the outstanding Debentures of such series to be represented by one or more Global Debentures;
 - (ii) be delivered by the Debenture Trustee to such Depository or pursuant to such Depository's instructions; and
 - (iii) bear a legend substantially to the following effect:

"This Debenture is a Global Debenture within the meaning of the Indenture herein referred to and is registered in the name of a Depository or a nominee thereof. This Debenture may not be transferred to or exchanged for Debentures registered in the name of any person other than the Depository or a nominee

thereof and no such transfer may be registered except in the limited circumstances described in the Indenture. Every Debenture authenticated and delivered upon registration of, transfer of, or in exchange for, or in lieu of, this Debenture shall be a Global Debenture subject to the foregoing, except in such limited circumstances described in the Indenture."

- (b) Each Depository designated for a Global Debenture must, at the time of its designation and at all times while it serves as such Depository, be a clearing agency registered or designated under the securities legislation of the jurisdiction where the Depository has its principal offices.

2.7 Execution of Debentures

All Debentures shall be signed (either manually or by facsimile signature) by any one Director. A facsimile signature upon a Debenture shall for all purposes of this Indenture be deemed to be the signature of the person whose signature it purports to be. Notwithstanding that any person whose signature appears on a Debenture as a Director, may no longer hold such office at the date of the Debenture or at the date of the certification and delivery thereof, such Debenture shall be valid and binding upon the Corporation and entitled to the benefits of this Indenture.

2.8 Certification

No Debenture shall be issued or, if issued, shall be obligatory or shall entitle the holder to the benefits of this Indenture, until it has been manually certified by or on behalf of the Debenture Trustee substantially in the form set out in this Indenture, in the relevant supplemental indenture, or in some other form approved by the Debenture Trustee. Such certification on any Debenture shall be conclusive evidence that such Debenture is duly issued, is a valid obligation of the Corporation and the holder is entitled to the benefits hereof.

The certificate of the Debenture Trustee signed on the Debentures, or interim Debentures hereinafter mentioned, shall not be construed as a representation or warranty by the Debenture Trustee as to the validity of this Indenture or of the Debentures or interim Debentures or as to the issuance of the Debentures or interim Debentures and the Debenture Trustee shall in no respect be liable or answerable for the use made of the Debentures or interim Debentures or any of them or the proceeds thereof. The certificate of the Debenture Trustee signed on the Debentures or interim Debentures shall, however, be a representation and warranty by the Debenture Trustee that the Debentures or interim Debentures have been duly certified by or on behalf of the Debenture Trustee pursuant to the provisions of this Indenture.

Once a global debenture certificate has been certified, the Debenture Trustee and Depository may replace the global debenture certificate with a non-certificated electronic position on the register maintained by the Debenture Trustee

2.9 Interim Debentures or Certificates

Pending the delivery of definitive Debentures of any series to the Debenture Trustee, the Corporation may issue and the Debenture Trustee may certify in lieu thereof interim Debentures in such forms and in such denominations and signed in such manner as provided herein, entitling the holders thereof to definitive Debentures of the series when the same are ready for delivery; or the Corporation may execute and the Debenture Trustee may certify a temporary Debenture for the whole principal amount of Debentures of the series then authorized to be issued hereunder and the Corporation may

deliver the same to the Debenture Trustee and thereupon the Debenture Trustee may issue its own interim certificates in such form and in such amounts, not exceeding in the aggregate the principal amount of the temporary Debenture so delivered to it, as the Corporation, and the Debenture Trustee may approve entitling the holders thereof to definitive Debentures of the series when the same are ready for delivery; and, when so issued and certified, such interim or temporary Debentures or interim certificates shall, for all purposes but without duplication, rank in respect of this Indenture equally with Debentures duly issued hereunder and, pending the exchange thereof for definitive Debentures, the holders of the interim or temporary Debentures or interim certificates shall be deemed without duplication to be Debentureholders and entitled to the benefit of this Indenture to the same extent and in the same manner as though the said exchange had actually been made. Forthwith after the Corporation shall have delivered the definitive Debentures to the Debenture Trustee, the Debenture Trustee shall cancel such temporary Debentures, if any, and shall call in for exchange all interim Debentures or certificates that shall have been issued and forthwith after such exchange shall cancel the same. No charge shall be made by the Corporation or the Debenture Trustee to the holders of such interim or temporary Debentures or interim certificates for the exchange thereof. All interest paid upon interim or temporary Debentures or interim certificates shall be noted thereon as a condition precedent to such payment unless paid by cheque to the registered holders thereof.

2.10 Mutilation, Loss, Theft or Destruction

In case any of the Debentures issued hereunder shall become mutilated or be lost, stolen or destroyed and in the absence of notice that such Debenture has been acquired by a bona fide purchaser, the Corporation, in its discretion, may issue, and thereupon the Debenture Trustee shall certify and deliver, a new Debenture upon surrender and cancellation of the mutilated Debenture, or in the case of a lost, stolen or destroyed Debenture, in lieu of and in substitution for the same, and the substituted Debenture shall be in a form approved by the Debenture Trustee and shall be entitled to the benefits of this Indenture and rank equally in accordance with its terms with all other Debentures issued or to be issued hereunder. The new or substituted Debenture may have endorsed upon it the fact that it is in replacement of a previous Debenture. In case of loss, theft or destruction the applicant for a substituted Debenture shall furnish to the Corporation and to the Debenture Trustee such evidence of the loss, theft or destruction of the Debenture and such other documents as shall be satisfactory to them in their discretion and shall also furnish an indemnity and surety bond satisfactory to them in their discretion. The applicant shall pay all reasonable expenses incidental to the issuance of any substituted Debenture.

2.11 Concerning Interest

- (a) All Debentures issued hereunder, whether originally or upon exchange or in substitution for previously issued Debentures which are interest bearing, shall bear interest (i) from and including their issue date, or (ii) from and including the last Interest Payment Date to which interest shall have been paid or made available for payment on the outstanding Debentures of that series, whichever shall be the later, or, in respect of Debentures subject to a Periodic Offering, from and including their issue date or from and including the last Interest Payment Date to which interest shall have been paid or made available for payment on such Debentures, in all cases, to but excluding the next Interest Payment Date. All interest shall accrue from day to day and shall be payable in arrears for the actual number of days lapsed in the relevant interest period.
- (b) Unless otherwise specifically provided in the terms of the Debentures of any series, interest for any period of less than six months shall be computed on the basis of a year of 365 days or 366 days in a leap year, as the case may be. Subject to Section 2.4(b) in respect of the method for calculating the amount of interest to be paid on the Initial

Debentures on the first Interest Payment Date in respect thereof, with respect to any series of Debentures, whenever interest is computed on a basis of a year (the "deemed year") which contains fewer days than the actual number of days in the calendar year of calculation, such rate of interest shall be expressed as a yearly rate for purposes of the *Interest Act* (Canada) by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing it by the number of days in the deemed year.

2.12 Debentures to Rank *Pari Passu*

The Debentures will be direct unsecured obligations of the Corporation. Each Debenture of the same series of Debentures will rank *pari passu* with each other Debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all present and future subordinated and unsecured indebtedness of the Corporation except for sinking fund provisions (if any) applicable to different series of Debentures or other similar types of obligations of the Corporation.

2.13 Payments of Amounts Due on Maturity

Except as may otherwise be provided in this Indenture and any supplemental indenture in respect of any series of Debentures and subject to Section 4.10, payments of amounts due upon maturity of the Debentures will be made in the following manner. The Corporation will establish and maintain with the Debenture Trustee a Maturity Account for each series of Debentures. Each such Maturity Account shall be maintained by and be subject to the control of the Debenture Trustee for the purposes of this Indenture. On or before 11:00 a.m. (Vancouver time) on the Business Day immediately prior to each Maturity Date for Debentures outstanding from time to time under this Indenture, the Corporation will deliver to the Debenture Trustee funds for deposit in the applicable Maturity Account in an amount sufficient to pay the cash amount payable in respect of such Debentures (including the principal amount together with any accrued and unpaid interest thereon less any tax required by law to be withheld or deducted therefrom). The Debenture Trustee, on behalf of the Corporation, will pay to each holder entitled to receive payment the principal amount of and premium (if any) and accrued and unpaid interest on the Debenture (less applicable withholding taxes, if any), upon surrender of the Debenture at any branch of the Debenture Trustee designated for such purpose from time to time by the Corporation and the Debenture Trustee. The delivery of such funds to the Debenture Trustee for deposit to the applicable Maturity Account will satisfy and discharge the liability of the Corporation for the Debentures to which the delivery of funds relates to the extent of the amount delivered (plus the amount of tax withheld or deducted as aforesaid) and such Debentures will thereafter to that extent not be considered as outstanding under this Indenture and such holder will have no other right in regard thereto other than to receive out of the money so delivered or made available the amount to which such holder is entitled.

2.14 Payment of Interest

The following provisions shall apply to Debentures, except as otherwise provided in Section 2.4(b) or specified in a resolution of the Directors, a Certificate of the Corporation or a supplemental indenture relating to a particular series of Additional Debentures:

- (a) As interest becomes due on each Debenture (except on conversion or on redemption, when interest may at the option of the Corporation be paid upon surrender of such Debenture) the Corporation, either directly or through the Debenture Trustee or any agent of the Debenture Trustee, shall send or forward by prepaid ordinary mail, electronic transfer of funds or such other means as may be agreed to by the Debenture Trustee, payment of such interest (less any tax required to be withheld therefrom) to the order of

the registered holder of such Debenture appearing on the registers maintained by the Debenture Trustee at the close of business on the fifth Business Day prior to the applicable Interest Payment Date and addressed to the holder at the holder's last address appearing on the register, unless such holder otherwise directs. If payment is made by cheque, such cheque shall be forwarded at least three Business Days prior to each date on which interest becomes due and if payment is made by other means (such as electronic transfer of funds, provided the Debenture Trustee must receive confirmation of receipt of funds prior to being able to wire funds to holders), such payment shall be made in a manner whereby the holder receives credit for such payment on the date such interest on such Debenture becomes due. The mailing of such cheque or the making of such payment by other means shall, to the extent of the sum represented thereby, plus the amount of any tax withheld as aforesaid, satisfy and discharge all liability for interest on such Debenture, unless in the case of payment by cheque, such cheque is not paid at par on presentation. In the event of non-receipt of any cheque for or other payment of interest by the person to whom it is so sent as aforesaid, the Corporation or the Debenture Trustee will issue to such person a replacement cheque or other payment for a like amount upon being furnished with such evidence of non-receipt as it shall reasonably require and upon being indemnified to its satisfaction. Notwithstanding the foregoing, if the Corporation is prevented by circumstances beyond its control (including, without limitation, any interruption in mail service) from making payment of any interest due on each Debenture in the manner provided above, the Corporation may make payment of such interest or make such interest available for payment in any other manner acceptable to the Debenture Trustee with the same effect as though payment had been made in the manner provided above. If payment of an Interest Obligation is made through the Debenture Trustee, at least one Business Day prior to each Interest Payment Date or the date of mailing the cheques for the interest due on an Interest Payment Date, whichever is earlier, the Corporation shall deliver sufficient funds to the Debenture Trustee by electronic transfer or certified cheque or make such other arrangements for the provision of funds as may be agreeable between the Debenture Trustee and the Corporation in order to effect such payment. The Debenture Trustee shall disburse such payments only upon receiving, at least one Business Day prior to each such date, funds in an amount sufficient for the payment of the Interest Obligation.

- (b) Notwithstanding Section 2.14(a), if a series of Debentures is represented by a Global Debenture, then all payments of interest on the Global Debenture shall be made by electronic funds transfer or cheque made payable to the Depository or its nominee for subsequent payment (less applicable withholding taxes, if any) to Beneficial Holders of interests in that Global Debenture, unless the Corporation and the Depository otherwise agree. None of the Corporation, the Debenture Trustee or any agent of the Debenture Trustee for any Debenture issued as a Global Debenture will be liable or responsible to any person for any aspect of the records related to or payments made on account of beneficial interests in any Global Debenture or for maintaining, reviewing, or supervising any records relating to such beneficial interests.

2.15 Withholding Tax

For greater certainty, the Corporation will be entitled to deduct and withhold any applicable taxes or similar charges (including interest, penalties or similar amounts in respect thereof) imposed or levied by or on behalf of the Canadian government or of any province or territory thereof or any authority or agency therein or thereof having power to tax, including pursuant to the *Tax Act*, from any payment to be made on or in connection with the Debentures and, provided that the Corporation

remits such withheld amount to such government, authority or agency and files all forms in respect thereof as and when required by law and provides copies of such remittance and filing to the Debenture Trustee and the relevant Debentureholder, the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Corporation's obligations under the Debentures and there is no obligation on the Corporation to gross-up amounts paid to a holder in respect of such deductions or withholdings. The Corporation shall provide the Debenture Trustee and the relevant Debentureholder with copies of receipts or other communications relating to the remittance of such withheld amount or the filing of such forms received from such government, authority or agency promptly after receipt thereof.

The Debenture Trustee shall have no obligation to verify any payments under the *Tax Act* or any provision of provincial, state, local or foreign tax law. The Debenture Trustee shall at all times be indemnified and held harmless by the Corporation from and against any personal liabilities of the Debenture Trustee incurred in connection with the failure of the Corporation or its agents, to report, remit or withhold taxes as required by the *Tax Act* or otherwise failing to comply with the *Tax Act*. This indemnification shall survive the resignation or removal of the Debenture Trustee and the termination of this Indenture solely to the extent that such liabilities have been incurred in connection with taxation years occurring during the term of this Indenture.

2.16 – Section deleted??

ARTICLE 3

REGISTRATION, TRANSFER, EXCHANGE AND OWNERSHIP

3.1 Fully Registered Debentures

- (a) With respect to each series of Debentures issuable as Fully Registered Debentures, the Corporation shall cause to be kept by and at the principal offices of the Debenture Trustee in Vancouver and Toronto and by the Debenture Trustee or such other registrar as the Corporation, with the approval of the Debenture Trustee, may appoint at such other place or places, if any, as may be specified in the Debentures of such series or as the Corporation may designate with the approval of the Debenture Trustee, a register in which shall be entered the names and addresses of the holders of Fully Registered Debentures and particulars of the Debentures held by them respectively and of all transfers of Fully Registered Debentures. Such registration shall be noted on the Debentures by the Debenture Trustee or other registrar unless a new Debenture shall be issued upon such transfer.
- (b) No transfer of a Fully Registered Debenture shall be valid unless made on such register referred to in Section 3.1(a) by the registered holder or such holder's executors, administrators or other legal representatives or an attorney duly appointed by an instrument in writing in form and execution satisfactory to the Debenture Trustee or other registrar upon surrender of the Debentures together with a duly executed form of transfer acceptable to the Debenture Trustee and upon compliance with such other reasonable requirements as the Debenture Trustee or other registrar may prescribe, nor unless the name of the transferee shall have been noted on the Debenture by the Debenture Trustee or other registrar.

3.2 Global Debentures

- (a) With respect to each series of Debentures issuable in whole or in part as one or more Global Debentures, the Corporation shall cause to be kept by and at the principal offices

of the Debenture Trustee in Vancouver and Toronto and by the Debenture Trustee or such other registrar as the Corporation, with the approval of the Debenture Trustee, may appoint at such other place or places, if any, as the Corporation may designate with the approval of the Debenture Trustee, a register in which shall be entered the name and address of the holder of each such Global Debenture (being the Depository, or its nominee, for such Global Debenture) as holder thereof and particulars of the Global Debenture held by it, and of all transfers thereof. If any Debentures of such series are at any time not Global Debentures, the provisions of Section 3.1 shall govern with respect to registrations and transfers of such Debentures.

- (b) Notwithstanding any other provision of this Indenture, a Global Debenture may not be transferred by the registered holder thereof and accordingly, no definitive certificates shall be issued to Beneficial Holders of Debentures except in the following circumstances or as otherwise specified in a resolution of the Directors, Certificate of the Corporation or supplemental indenture relating to a particular series of Additional Debentures:
- (i) Global Debentures may be transferred by a Depository to a nominee of such Depository or by a nominee of a Depository to such Depository or to another nominee of such Depository or by a Depository or its nominee to a successor Depository or its nominee;
 - (ii) Global Debentures may be transferred at any time after the Depository for such Global Debentures (A) has notified the Debenture Trustee, or the Corporation has notified the Debenture Trustee, that it is unwilling or unable to continue as Depository for such Global Debentures, or (B) ceases to be eligible to be a Depository under Section 2.6(b), provided that at the time of such transfer the Corporation has not appointed a successor Depository for such Global Debentures;
 - (iii) Global Debentures may be transferred at any time after the Corporation has determined, in its sole discretion, to terminate the book-entry only registration system in respect of such Global Debentures and has communicated such determination to the Debenture Trustee in writing;
 - (iv) Global Debentures may be transferred at any time after the Debenture Trustee has determined that an Event of Default has occurred and is continuing with respect to the Debentures of the series issued as a Global Debenture, provided that Beneficial Holders of the Debentures representing, in the aggregate, not less than 25% of the aggregate principal amount of the Debentures of the same series advise the Depository in writing, through the Depository participants, that the continuation of the book-entry only registration system for such series of Debentures is no longer in their best interest and also provided that at the time of such transfer the Debenture Trustee has not waived the Event of Default pursuant to Section 8.3;
 - (v) Global Debentures may be transferred if required by applicable law; or
 - (vi) Global Debentures may be transferred if the book-entry only registration system ceases to exist.

- (c) With respect to the Global Debentures, unless and until definitive certificates have been issued to Beneficial Holders pursuant to subsection 3.2(b):
- (i) the Corporation and the Debenture Trustee may deal with the Depository for all purposes (including paying interest on the Debentures) as the sole holder of such series of Debentures and the authorized representative of the Beneficial Holders;
 - (ii) the rights of the Beneficial Holders shall be exercised only through the Depository and shall be limited to those established by law and agreements between such Beneficial Holders and the Depository or the Depository Participants;
 - (iii) the Depository will make book entry transfers among the Depository Participants; and
 - (iv) whenever this Indenture requires or permits actions to be taken based upon instruction or directions of Debentureholders evidencing a specified percentage of the outstanding Debentures, the Depository shall be deemed to be counted in that percentage only to the extent that it has received instructions to such effect from the Beneficial Holders or the Depository Participant, and has delivered such instructions to the Debenture Trustee.
- (d) Whenever a notice or other communication is required to be provided to Debentureholders, unless and until definitive certificate(s) have been issued to Beneficial Holders pursuant to this Section 3.2, the Debenture Trustee shall provide all such notices and communications to the Depository and the Depository shall deliver such notices and communications to such Beneficial Holders in accordance with Applicable Securities Legislation. Upon the termination of the book-entry only registration system on the occurrence of one of the conditions specified in Section 3.2(b) with respect to a series of Debentures issued hereunder, the Debenture Trustee shall notify all applicable Beneficial Holders, through the Depository, of the availability of definitive Debenture certificates. Upon surrender by the Depository of the certificate(s) representing the Global Debentures and receipt of new registration instructions from the Depository, the Debenture Trustee shall deliver the definitive Debenture certificates for such Debentures to the holders thereof in accordance with the new registration instructions and thereafter, the registration and transfer of such Debentures will be governed by Section 3.1 and the remaining Sections of this Article 3.

3.3 Transferee Entitled to Registration

The transferee of a Debenture shall be entitled, after the appropriate form of transfer is lodged with the Debenture Trustee or other registrar and upon compliance with all other conditions required by this Indenture or by law, to be entered on the register as the owner of such Debenture free from all equities or rights of set-off or counterclaim between the Corporation and the transferor or any previous holder of such Debenture, save in respect of equities of which the Corporation is required to take notice by statute or by order of a court of competent jurisdiction.

3.4 No Notice of Trusts

Neither the Corporation nor the Debenture Trustee nor any registrar shall be bound to take notice of or see to the execution of any trust (other than that created by this Indenture) whether

express, implied or constructive, in respect of any Debenture, and may transfer the same on the direction of the person registered as the holder thereof, whether named as trustee or otherwise, as though that person were the beneficial owner thereof.

3.5 Registers Open for Inspection

The registers referred to in Sections 3.1 and 3.2 shall at all reasonable times be open for inspection by the Corporation, the Debenture Trustee or any Debentureholder. Every registrar, including the Debenture Trustee, shall from time to time when requested so to do by the Corporation or by the Debenture Trustee, in writing, furnish the Corporation or the Debenture Trustee, as the case may be, with a list of names and addresses of holders of registered Debentures entered on the register kept by them and showing the principal amount and serial numbers of the Debentures held by each such holder, provided the Debenture Trustee shall be entitled to charge a reasonable fee to provide such a list.

3.6 Exchanges of Debentures

- (a) Subject to Section 3.7, Debentures in any authorized form or denomination, other than Global Debentures, may be exchanged for Debentures in any other authorized form or denomination, of the same series and date of maturity, bearing the same interest rate and of the same aggregate principal amount as the Debentures so exchanged.
- (b) In respect of exchanges of Debentures permitted by Section 3.6(a), Debentures of any series may be exchanged only at the principal offices of the Debenture Trustee in Vancouver and Toronto or at such other place or places, if any, as may be specified in the Debentures of such series and at such other place or places as may from time to time be designated by the Corporation with the approval of the Debenture Trustee. Any Debentures tendered for exchange shall be surrendered to the Debenture Trustee. The Corporation shall execute and the Debenture Trustee shall certify all Debentures necessary to carry out exchanges as aforesaid. All Debentures surrendered for exchange shall be cancelled.
- (c) Debentures issued in exchange for Debentures which at the time of such issue have been selected or called for redemption at a later date shall be deemed to have been selected or called for redemption in the same manner and shall have noted thereon a statement to that effect.

3.7 Closing of Registers

- (a) Neither the Corporation nor the Debenture Trustee nor any registrar shall be required to:
 - (i) make transfers or exchanges or effect any conversions of Fully Registered Debentures on any Interest Payment Date for such Debentures or during the five preceding Business Days;
 - (ii) make transfers or exchanges or effect any conversions of any Debentures on the day of any selection by the Debenture Trustee of Debentures to be redeemed or during the five preceding Business Days; or
 - (iii) make exchanges of any Debentures which will have been selected or called for redemption unless upon due presentation thereof for redemption such Debentures shall not be redeemed.

- (b) Subject to any restriction herein provided, the Corporation with the approval of the Debenture Trustee may at any time close any register for any series of Debentures, other than those kept at the principal offices of the Debenture Trustee in Vancouver and Toronto, and transfer the registration of any Debentures registered thereon to another register (which may be an existing register) and thereafter such Debentures shall be deemed to be registered on such other register. Notice of such transfer shall be given to the holders of such Debentures.

3.8 Charges for Registration, Transfer and Exchange

For each Debenture exchanged, registered, transferred or discharged from registration, the Debenture Trustee or other registrar, except as otherwise herein provided, may make a reasonable charge for its services and in addition may charge a reasonable sum for each new Debenture issued (such amounts to be agreed upon by the Debenture Trustee and the Corporation from time to time), and payment of such charges and reimbursement of the Debenture Trustee or other registrar for any stamp taxes or governmental or other charges required to be paid shall be made by the party requesting such exchange, registration, transfer or discharge from registration as a condition precedent thereto. Notwithstanding the foregoing provisions, no charge shall be made to a Debentureholder hereunder:

- (a) for any exchange, registration, transfer or discharge from registration of any Debenture applied for within a period of two months from the date of the first delivery of Debentures of that series or, with respect to Debentures subject to a Periodic Offering, within a period of two months from the date of delivery of any such Debenture;
- (b) for any exchange of any interim or temporary Debenture or interim certificate that has been issued under Section 2.9 for a definitive Debenture;
- (c) for any exchange of a Global Debenture as contemplated in Section 3.2;
- (d) for any exchange of any Debenture resulting from a partial redemption under Section 4.2;
- (e) for any exchange of any Debenture resulting from a partial conversion under Section 6.4(d); or
- (f) for any exchange of any Debenture resulting from a partial purchase under Section 2.4(j).

3.9 Ownership of Debentures

- (a) Unless otherwise required by law, the person in whose name any registered Debenture is registered shall for all the purposes of this Indenture be and be deemed to be the owner thereof and payment of or on account of the principal of and premium, if any, on such Debenture and interest thereon shall be made to such registered holder.
- (b) Neither the Corporation, the Underwriters nor the Debenture Trustee shall have any liability for:
 - (i) any aspect of the records relating to the beneficial ownership of the Debentures held by a Depository or of the payments relating thereto; or
 - (ii) maintaining, supervising or reviewing any records relating to the Debentures.

The rules governing Depositories provide that they act as the agent and depository for Depository Participants. As a result, such Depository Participants must look solely to the Depository and Beneficial Holders of Debentures must look solely to the Depository Participants for the payment of principal and interest on the Debentures paid by or on behalf of the Corporation to the Depository.

- (c) Holders of Debentures:
 - (i) may not have Debentures registered in their name;
 - (ii) may not have physical certificates representing their interest in the Debentures;
 - (iii) may not be able to sell the Debentures to institutions required by law to hold certificates for securities they own; and
 - (iv) may be unable to pledge Debentures as security.
- (d) The registered holder for the time being of any registered Debenture shall be entitled to the principal, premium, if any, and/or interest evidenced by such instruments, respectively, free from all equities or rights of set-off or counterclaim between the Corporation and the original or any intermediate holder thereof and all Persons may act accordingly and the receipt of any such registered holder for any such principal, premium or interest shall be a good discharge to the Corporation and/or the Debenture Trustee for the same and neither the Corporation nor the Debenture Trustee shall be bound to inquire into the title of any such registered holder.
- (e) Where Debentures are registered in more than one name, the principal, premium, if any, and interest from time to time payable in respect thereof may be paid to the order of all such holders, failing written instructions from them to the contrary, and the receipt of any one of such holders therefor shall be a valid discharge, to the Debenture Trustee, any registrar and to the Corporation.
- (f) In the case of the death of one or more joint holders of any Debenture the principal, premium, if any, and interest from time to time payable thereon may be paid to the order of the survivor or survivors of such registered holders and the receipt of any such survivor or survivors therefor shall be a valid discharge to the Debenture Trustee and any registrar and to the Corporation.

ARTICLE 4 REDEMPTION AND PURCHASE OF DEBENTURES

4.1 Applicability of Article

Subject to regulatory approval, the Corporation shall have the right at its option to redeem, either in whole at any time or in part from time to time and before maturity, either by payment of money, by issuance of Freely Tradeable Shares as provided in Section 4.6, or any combination thereof, any Debentures issued hereunder of any series which by their terms are made so redeemable (subject, however, to any applicable restriction on the redemption of Debentures of such series, such as those contained in Section 2.4(c)) at such rate or rates of premium, if any, and on such date or dates and in accordance with such other provisions as shall have been determined at the time of issue of such Debentures and as shall have been expressed in this Indenture, in the Debentures, in a Certificate of the

Corporation, or in a supplemental indenture authorizing or providing for the issue thereof, or in the case of Additional Debentures issued pursuant to a Periodic Offering, in the Written Direction of the Corporation requesting the certification and delivery thereof.

Subject to regulatory approval, the Corporation shall also have the right at its option to repay, either in whole or in part, on maturity, either by payment of money in accordance with Section 2.13, by issuance of Freely Tradeable Shares as provided in Section 4.10 or any combination thereof, any Debentures issued hereunder of any series which by their terms are made so repayable on maturity (subject however, to any applicable restriction on the repayment of the principal amount of the Debentures of such series, such as those contained in Section 2.4(f)) at such rate or rates of premium, if any, and on such date or dates and in accordance with such other provisions as shall have been determined at the time of issue of such Debenture and shall have been expressed in this Indenture, in the Debentures, in a Certificate of the Corporation, or in a supplemental indenture authorizing or providing for the issue thereof, or in the case of Additional Debentures issued pursuant to a Periodic Offering, in the Written Direction of the Corporation requesting the certification and delivery thereof.

4.2 Partial Redemption

If less than all the Debentures of any series for the time being outstanding are at any time to be redeemed, or if a portion of the Debentures being redeemed are being redeemed for cash and a portion of such Debentures are being redeemed by the payment of Freely Tradeable Shares pursuant to Section 4.6, the Debentures to be so redeemed shall be selected by the Debenture Trustee on a *pro rata* basis to the nearest multiple of \$1,000 in accordance with the principal amount of the Debentures registered in the name of each holder or in such other manner as the Debenture Trustee deems equitable, subject to the approval of the Toronto Stock Exchange. Unless otherwise specifically provided in the terms of any series of Debentures, no Debenture shall be redeemed in part unless the principal amount redeemed is \$1,000 or a multiple thereof. For this purpose, the Debenture Trustee may make, and from time to time vary, regulations with respect to the manner in which such Debentures may be drawn for redemption in part or for redemption in cash and regulations so made shall be valid and binding upon all holders of such Debentures notwithstanding the fact that as a result thereof one or more of such Debentures may become subject to redemption in part only or for cash only. In the event that one or more of such Debentures becomes subject to redemption in part only, upon surrender of any such Debentures for payment of the Redemption Price, together with interest accrued to but excluding the Redemption Date, the Corporation shall execute and the Debenture Trustee shall certify and deliver without charge to the holder thereof or upon the holder's order one or more new Debentures for the unredeemed part of the principal amount of the Debenture or Debentures so surrendered or, with respect to a Global Debenture, the Depository shall make notations on the Global Debenture of the principal amount thereof so redeemed. Unless the context otherwise requires, the terms "Debenture" or "Debentures" as used in this Article 4 shall be deemed to mean or include any part of the principal amount of any Debenture which in accordance with the foregoing provisions has become subject to redemption.

4.3 Notice of Redemption

Notice of redemption (the "**Redemption Notice**") of any series of Debentures shall be given to the holders of the Debentures so to be redeemed not more than 60 days nor less than 30 days prior to the date fixed for redemption (the "**Redemption Date**") in the manner provided in Section 14.2. Every such notice shall specify the aggregate principal amount of Debentures called for redemption, the Redemption Date, the Redemption Price and the places of payment and shall state that interest upon the principal amount of Debentures called for redemption shall cease to accrue and be payable from and after the Redemption Date. In addition, unless all the outstanding Debentures are to be redeemed, the Redemption Notice shall specify:

- (a) the distinguishing letters and numbers of the registered Debentures which are to be redeemed (or of such thereof as are registered in the name of such Debentureholder);
- (b) in the case of a published notice, the distinguishing letters and numbers of the Debentures which are to be redeemed or, if such Debentures are selected by terminal digit or other similar system, such particulars as may be sufficient to identify the Debentures so selected;
- (c) in the case of a Global Debenture, that the redemption will take place in such manner as may be agreed upon by the Depository, the Debenture Trustee and the Corporation (or Sun Gro Canada as attorney to the Corporation); and
- (d) in all cases, the principal amounts of such Debentures or, if any such Debenture is to be redeemed in part only, the principal amount of such part.

In the event that all Debentures to be redeemed are registered Debentures, publication shall not be required.

4.4 Debentures Due on Redemption Dates

Notice having been given as aforesaid, all the Debentures so called for redemption shall thereupon be and become due and payable at the Redemption Price, together with accrued interest to but excluding the Redemption Date (less any taxes required to be deducted or withheld), on the Redemption Date specified in such notice, in the same manner and with the same effect as if it were the date of maturity specified in such Debentures, anything therein or herein to the contrary notwithstanding, and from and after such Redemption Date, if the monies necessary to redeem, or the Shares to be issued to redeem, such Debentures shall have been deposited as provided in Section 4.5 and affidavits or other proof satisfactory to the Debenture Trustee as to the publication and/or mailing of such notices shall have been lodged with it, interest upon the Debentures shall cease. If any question shall arise as to whether any notice has been given as above provided and such deposit made, such question shall be decided by the Debenture Trustee whose decision shall be final and binding upon all parties in interest.

4.5 Deposit of Redemption Monies or Shares

Redemption of Debentures shall be provided for by the Corporation depositing with the Debenture Trustee or any paying agent to the order of the Debenture Trustee, on or before 11:00 a.m. (Vancouver time) on the Business Day immediately prior to the Redemption Date specified in such notice, such sums of money, or certificates representing such number of Freely Tradeable Shares in accordance with Section 4.6, or both as the case may be, as may be sufficient to pay the Redemption Price of the Debentures so called for redemption, plus accrued and unpaid interest thereon to but excluding the Redemption Date, provided the Corporation may elect to satisfy this requirement by providing the Debenture Trustee with a certified cheque or a banker's draft for such amounts required under this Section 4.5 or by providing the Debenture Trustee with such funds through electronic transfer of funds on the Business Day immediately prior to the Redemption Date. The Corporation shall also deposit with the Debenture Trustee a sum of money sufficient to pay any charges or expenses which may be incurred by the Debenture Trustee in connection with such redemption. Every such deposit shall be irrevocable. From the sums so deposited, or certificates so deposited, or both, the Debenture Trustee shall pay or cause to be paid, or issue or cause to be issued, to the holders of such Debentures so called for redemption, upon surrender of such Debentures, the principal, premium (if any) and interest (if any) to which they are respectively entitled on redemption, less applicable withholding taxes, if any.

4.6

Right to Repay Redemption Price in Shares

- (a) Subject to the other provisions of this Section 4.6 and receipt of any required regulatory approvals, the Corporation may, at its option, elect to satisfy its obligation to pay all or any portion of the Redemption Price by issuing and delivering to holders on the Redemption Date that number of Freely Tradeable Shares obtained by dividing the Redemption Price by 95% of the then Current Market Price of the Shares (the "Share Redemption Right").
- (b) The Corporation shall exercise the Share Redemption Right by so specifying in the Redemption Notice (which must be given in accordance with Section 4.3) and shall specify the aggregate principal amount of Debentures in respect of which it is exercising the Share Redemption Right in such notice.
- (c) The Corporation's right to exercise the Share Redemption Right shall be conditional upon the following conditions being met on the Business Day preceding the Redemption Date:
 - (i) the Shares to be issued on exercise of the Share Redemption Right being Freely Tradeable;
 - (ii) the listing of such additional Shares on each stock exchange on which the Shares are then listed;
 - (iii) the Corporation being a reporting issuer in good standing under Applicable Securities Legislation where the distribution of such Shares occurs;
 - (iv) no Event of Default shall have occurred and be continuing;
 - (v) the receipt by the Debenture Trustee of a Certificate of the Corporation stating that conditions (i), (ii), (iii) and (iv) above have been satisfied and setting forth the number of Shares to be delivered for each \$1,000 principal amount of Debentures and the Current Market Price of the Shares on the Redemption Date; and
 - (vi) the receipt by the Debenture Trustee of an opinion of Counsel to the effect that such Shares have been duly authorized by the Corporation and, when issued and delivered pursuant to the terms of this Indenture in payment of the Redemption Price, will be validly issued as fully paid and non-assessable, that conditions (i) and (ii) above have been satisfied and that, relying exclusively on certificates of good standing issued by the relevant securities authorities, condition (iii) above is satisfied, except that the opinion in respect of condition (iii) need not be expressed with respect to those provinces where certificates are not issued.

If the foregoing conditions are not satisfied prior to 5:00 p.m. (Vancouver time) on the Business Day preceding the Redemption Date, the Corporation shall pay the Redemption Price in cash in accordance with Section 4.5 unless the Debentureholder waives the conditions which are not satisfied.

- (d) The Corporation shall, on or before 11:00 a.m. (Vancouver time) on the Business Day immediately prior to the Redemption Date, make the delivery to the Debenture Trustee for delivery to and on account of the Debentureholders, of certificates representing the

Freely Tradeable Shares to which such holders are entitled upon presentation and surrender of the Debentures for payment on the Redemption Date, at any place where a register is maintained pursuant to Article 3 or any other place specified in the Redemption Notice.

- (e) No fractional Shares shall be delivered upon the exercise of the Share Redemption Right but, in lieu thereof, the Corporation shall pay to the Debenture Trustee for the account of the holders, at the time contemplated in Section 4.6(d), the cash equivalent thereof determined by the Corporation on the basis of the Current Market Price of the Shares on the Redemption Date (less any tax required to be deducted, if any).
- (f) A holder shall be treated as the holder of record of the Freely Tradeable Shares issued on due exercise by the Corporation of its Share Redemption Right effective immediately after the close of business on the Redemption Date, and shall be entitled to all substitutions therefor, all income earned thereon or accretions thereto and all dividends or distributions (including stock dividends or dividends or distributions in kind) thereon and arising thereafter to which a Shareholder of record of such Freely Tradeable Shares would be entitled, and in the event that the Debenture Trustee receives the same, it shall hold the same in trust for the benefit of such holder.
- (g) The Corporation shall at all times reserve and keep available out of its authorized Shares (if the number thereof is or becomes limited), solely for the purpose of issue and delivery upon the exercise of the Corporation's Share Redemption Right as provided herein, and shall issue to Debentureholders to whom Freely Tradeable Shares will be issued pursuant to exercise of the Share Redemption Right, such number of Freely Tradeable Shares as shall be issuable in such event. All Freely Tradeable Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.
- (h) The Corporation shall comply with all Applicable Securities Legislation regulating the issue and delivery of Freely Tradeable Shares upon exercise of the Share Redemption Right and shall cause to be listed and posted for trading such Shares on each stock exchange on which the Shares are then listed.
- (i) The Corporation shall from time to time promptly pay, or make provision satisfactory to the Debenture Trustee for the payment of, all taxes and charges which may be imposed by the laws of Canada or any province thereof (except income tax, withholding tax or security transfer tax, if any) which shall be payable with respect to the issuance or delivery of Freely Tradeable Shares to holders upon exercise of the Share Redemption Right pursuant to the terms of the Debentures and of this Indenture.
- (j) If the Corporation elects to satisfy its obligation to pay all or any portion of the Redemption Price by issuing Freely Tradeable Shares in accordance with this Section 4.6 and if the Redemption Price (or any portion thereof) to which a holder is entitled is subject to withholding taxes and the amount of the cash payment of the Redemption Price, if any, is insufficient to satisfy such withholding taxes, the Debenture Trustee, on the written direction of the Corporation but for the account of the holder, shall sell, through the investment banks, brokers or dealers selected by the Corporation, out of the Freely Tradeable Shares issued by the Corporation for this purpose, such number of Freely Tradeable Shares that together with the cash payment of the Redemption Price, if any, is sufficient to yield net proceeds (after payment of all costs) to cover the amount of taxes required to be withheld, and shall remit same on behalf of the Corporation to the

proper tax authorities within the period of time prescribed for this purpose under applicable laws.

- (k) Each certificate representing Freely Tradeable Shares issued in payment of the Redemption Price of Debentures, as well as all certificates issued in exchange for or in substitution of the foregoing securities, may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or any securities regulatory authority or to conform to general usage, all as may be determined by the Corporation, as conclusively evidenced by the issue of such certificates.
- (l) Interest accrued and unpaid on the Debentures on the Redemption Date will be paid, less applicable withholding taxes, if any, to holders of Debentures, in cash, in the manner contemplated in Section 4.5, subject to the ability of the Corporation to issue Shares as provided in Article 10.

4.7 Failure to Surrender Debentures Called for Redemption

In case the holder of any Debenture so called for redemption shall fail on or before the Redemption Date so to surrender such holder's Debenture, or shall not within such time accept payment of the redemption monies payable, or take delivery of certificates representing such Shares issuable in respect thereof, or give such receipt therefor, if any, as the Debenture Trustee may require, such redemption monies may be set aside in trust, or such certificates may be held in trust, without interest, either in the deposit department of the Debenture Trustee or in a chartered bank, and such setting aside shall for all purposes be deemed a payment to the Debentureholder of the sum or Shares so set aside and, to that extent, the Debenture shall thereafter not be considered as outstanding hereunder and the Debentureholder shall have no other right except to receive payment out of the monies so paid and deposited, or take delivery of the certificates so deposited, or both, upon surrender and delivery up of such holder's Debenture of the Redemption Price, as the case may be, of such Debenture plus any accrued but unpaid interest thereon to but excluding the Redemption Date and subsequent distributions on such Shares, if any.

In the event that any money, or certificates for Shares, required to be deposited hereunder with the Debenture Trustee or any depository or paying agent on account of Redemption Price, or interest, if any, on Debentures issued hereunder shall remain so deposited for a period of six years from the Redemption Date, then such monies or certificates for Shares, together with any accumulated interest thereon or any distribution paid thereon, shall at the end of such period be paid over or delivered over by the Debenture Trustee or such Depository or paying agent to the Corporation on its demand, and thereupon the Debenture Trustee shall not be responsible to Debentureholders for any amounts owing to them and subject to applicable law, thereafter the holder of a Debenture in respect of which such money was so repaid to the Corporation shall have no rights in respect thereof except to obtain payment of the money or certificates due from the Corporation, subject to any limitation period provided by the laws of British Columbia. Notwithstanding the foregoing, the Debenture Trustee will pay any remaining funds prior to the expiry of six years after the Redemption Date to the Corporation upon receipt from the Corporation, of an unconditional letter of credit from a Canadian chartered bank in an amount equal to or in excess of the amount of the remaining funds. If the remaining funds are paid to the Corporation prior to the expiry of six years after the Redemption Date, the Corporation shall reimburse the Debenture Trustee for any amounts required to be paid by the Debenture Trustee to a holder of a Debenture pursuant

to the redemption after the date of such payment of the remaining funds to the Corporation but prior to six years after the redemption.

4.8 Cancellation of Debentures Redeemed

Subject to the provisions of Sections 4.2 and 4.9 as to Debentures redeemed or purchased in part, all Debentures redeemed and paid under this Article 4 shall forthwith be delivered to the Debenture Trustee and cancelled and no Debentures shall be issued in substitution therefor.

4.9 Purchase of Debentures by the Corporation

Unless otherwise specifically provided with respect to a particular series of Debentures, the Corporation may, if it is not at the time in default hereunder, at any time and from time to time, purchase Debentures in the market (which shall include purchases from or through an investment dealer or a firm holding membership on a recognized stock exchange) or by tender or by contract, at any price. All Debentures so purchased may, at the option of the Corporation, be delivered to the Debenture Trustee and shall be cancelled and no Debentures shall be issued in substitution therefor.

If, upon an invitation for tenders, more Debentures than the Corporation is prepared to accept are tendered at the same lowest price, the Debentures to be purchased by the Corporation shall be selected by the Debenture Trustee on a *pro rata* basis or in such other manner (which may include selection by lot, random selection by computer or any other method) consented to by the Toronto Stock Exchange which the Debenture Trustee considers appropriate, from the Debentures tendered by each tendering Debentureholder who tendered at such lowest price. For this purpose the Debenture Trustee may make, and from time to time amend, regulations with respect to the manner in which Debentures may be so selected, and regulations so made shall be valid and binding upon all Debentureholders, notwithstanding the fact that as a result thereof one or more of such Debentures become subject to purchase in part only. The holder of a Debenture of which a part only is purchased, upon surrender of such Debenture for payment, shall be entitled to receive, without expense to such holder, one or more new Debentures for the unpurchased part so surrendered, and the Debenture Trustee shall certify and deliver such new Debenture or Debentures upon receipt of the Debenture so surrendered or, with respect to a Global Debenture, the Depository shall make notations on the Global Debenture of the principal amount thereof so purchased, which notations shall be authenticated by the Debenture Trustee.

4.10 Right to Repay Principal Amount in Shares

- (a) Subject to the other provisions of this Section 4.10 and receipt of any required regulatory approvals, the Corporation may, at its option, elect to satisfy its obligation to repay the principal amount of all or any portion of the principal amount of the Debentures outstanding by issuing and delivering to holders on the date of maturity (the "**Maturity Date**") of such Debentures as prescribed in any indenture supplemental hereto (except as otherwise provided herein in the case of the Initial Debentures) that number of Freely Tradeable Shares obtained by dividing the principal amount of the Debentures by 95% of the then Current Market Price of the Shares (the "**Share Repayment Right**").
- (b) The Corporation shall exercise the Share Repayment Right by so specifying in the Maturity Notice, which shall be delivered to the Debenture Trustee and the holders of Debentures not more than 60 days and not less than 30 days prior to the Maturity Date.
- (c) The Corporation's right to exercise the Share Repayment Right shall be conditional upon the following conditions being met on the Business Day preceding the Maturity Date:

- (i) the Shares to be issued on exercise of the Share Repayment Right being Freely Tradeable;
- (ii) the listing of such additional Shares on each stock exchange on which the Shares are then listed;
- (iii) the Corporation being a reporting issuer in good standing under Applicable Securities Legislation where the distribution of such Shares occurs;
- (iv) no Event of Default shall have occurred and be continuing;
- (v) the receipt by the Debenture Trustee of a Certificate of the Corporation stating that conditions (i), (ii), (iii) and (iv) above have been satisfied and setting forth the number of Shares to be delivered for each \$1,000 principal amount of Debentures and the Current Market Price of the Shares on the Maturity Date; and
- (vi) the receipt by the Debenture Trustee of an opinion of Counsel to the effect that such Shares have been duly authorized by the Corporation and, when issued and delivered pursuant to the terms of this Indenture in payment of the principal amount of the Debentures outstanding will be validly issued as fully paid and non-assessable, that conditions (i) and (ii) above have been satisfied and that, relying exclusively on certificates of good standing issued by the relevant securities authorities, condition (iii) above is satisfied, except that the opinion in respect of condition (iii) need not be expressed with respect to those provinces where certificates are not issued.

If the foregoing conditions are not satisfied prior to 5:00 p.m. (Vancouver time) on the Business Day preceding the Maturity Date, the Corporation shall pay the principal amount of the Debentures outstanding in cash in accordance with Section 2.13, unless the Debentureholder waives the conditions which are not satisfied.

- (d) The Corporation shall, on or before 11:00 a.m. (Vancouver time) on the Business Day immediately prior to the Maturity Date, make the delivery to the Debenture Trustee for delivery to and on account of the holders, of certificates representing the Freely Tradeable Shares to which such holders are entitled upon presentation and surrender of the Debentures for payment on the Maturity Date, at any place where a register is maintained pursuant to Article 3 or any other place specified in the Maturity Notice. The Corporation shall also deposit with the Debenture Trustee a sum of money sufficient to pay any charges or expenses which may be incurred by the Debenture Trustee in connection with the Share Repayment Right. Every such deposit shall be irrevocable. From the certificates so deposited in addition to amounts payable by the Debenture Trustee pursuant to Section 2.13, the Debenture Trustee shall pay or cause to be paid, to the holders of such Debentures, upon surrender of such Debentures, the principal amount of and premium (if any) on the Debentures to which they are respectively entitled on maturity and deliver to such holders the certificates to which such holders are entitled. The delivery of such certificates to the Debenture Trustee will satisfy and discharge the liability of the Corporation for the Debentures to which the delivery of certificates relates to the extent of the amount delivered (plus the amount of any certificates sold to pay applicable taxes in accordance with this Section 4.10) and such Debentures will thereafter to that extent not be considered as outstanding under this Indenture and, subject to

Section 4.10(1), such holder will have no other right in regard thereto other than to receive out of the certificates so delivered, the certificate(s) to which it is entitled.

- (e) No fractional Shares shall be delivered upon the exercise of the Share Repayment Right but, in lieu thereof, the Corporation shall pay to the Debenture Trustee for the account of the holders, at the time contemplated in Section 4.10(d), the cash equivalent thereof determined on the basis of the Current Market Price of the Shares on the Maturity Date (less any tax required to be deducted, if any).
- (f) A holder shall be treated as the shareholder of record of the Freely Tradeable Shares issued on due exercise by the Corporation of its Share Repayment Right effective immediately after 5:00 p.m. (Vancouver time) on the Maturity Date, and shall be entitled to all substitutions therefor, all income earned thereon or accretions thereto and all dividends or distributions (including stock dividends and dividends or distributions in kind) thereon and arising thereafter, and in the event that the Debenture Trustee receives the same, it shall hold the same in trust for the benefit of such holder.
- (g) The Corporation shall at all times reserve and keep available out of its authorized Shares (if the number thereof is or becomes limited), solely for the purpose of issue and delivery upon the exercise of the Corporation's Share Repayment Right as provided herein, and shall issue to Debentureholders to whom Freely Tradeable Shares will be issued pursuant to exercise of the Share Repayment Right, such number of Freely Tradeable Shares as shall be issuable in such event. All Freely Tradeable Shares which shall be so issuable shall be duly and validly issued as fully paid and non-assessable.
- (h) The Corporation shall comply with all Applicable Securities Legislation regulating the issue and delivery of Freely Tradeable Shares upon exercise of the Share Repayment Right and shall cause to be listed and posted for trading such Shares on each stock exchange on which the Shares are then listed.
- (i) The Corporation shall from time to time promptly pay, or make provision satisfactory to the Debenture Trustee for the payment of, all taxes and charges which may be imposed by the laws of Canada or any province thereof (except income tax, withholding tax or security transfer tax, if any) which shall be payable with respect to the issuance or delivery of Freely Tradeable Shares to holders upon exercise of the Share Repayment Right pursuant to the terms of the Debentures and of this Indenture.
- (j) If the Corporation elects to satisfy its obligation to pay all or any portion of the principal amount of Debentures due on maturity by issuing Freely Tradeable Shares in accordance with this Section 4.10 and if the principal amount (or any portion thereof) to which a holder is entitled is subject to withholding taxes and the amount of the cash payment of the principal amount due on maturity, if any, is insufficient to satisfy such withholding taxes, the Debenture Trustee, on the Written Direction of the Corporation but for the account of the holder, shall sell, through the investment banks, brokers or dealers selected by the Corporation, out of the Freely Tradeable Shares issued by the Corporation for this purpose, such number of Freely Tradeable Shares that together with the cash component of the principal amount due on maturity is sufficient to yield net proceeds (after payment of all costs) to cover the amount of taxes required to be withheld, and shall remit same on behalf of the Corporation to the proper tax authorities within the period of time prescribed for this purpose under applicable laws.

- (k) Each certificate representing Freely Tradeable Shares issued in payment of the principal amount of Debentures, as well as all certificates issued in exchange for or in substitution of the foregoing securities, may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform to general usage, all as may be determined by the Corporation, as conclusively evidenced by the issue of such certificates.
- (l) Interest accrued and unpaid on the Debentures on the Maturity Date will be paid, less applicable withholding taxes, if any, to holders of Debentures, in cash, in the manner contemplated in Section 2.14, subject to the ability of the Corporation to issue Shares as provided in Article 10.

ARTICLE 5

SUBORDINATION OF DEBENTURES

5.1 Applicability of Article

The indebtedness, liabilities and obligations of the Corporation hereunder or under the Debentures, whether on account of principal, interest or otherwise, but excluding the issuance of Shares or other securities pursuant to any provisions hereof (collectively the "**Debenture Liabilities**"), shall be subordinated and postponed and subject in right of payment, to the extent and in the manner hereinafter set forth in the following sections of this Article 5, to the full and final payment in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness) of all Senior Indebtedness and each holder of any such Debenture by his acceptance thereof agrees to and shall be bound by the provisions of this Article 5.

The Senior Indebtedness shall continue to be Senior Indebtedness and shall be entitled to the benefits of this Article 5 irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness and notwithstanding that no express written subordination agreement may have been entered into between the holders of such Senior Indebtedness and the Debenture Trustee or any of the Debentureholders.

5.2 Order of Payment

In the event of any dissolution, winding-up, liquidation, bankruptcy, insolvency, receivership, creditor enforcement or realization or other similar proceedings relating to the Corporation or any of its property (whether voluntary or involuntary, partial or complete) or any other marshalling of the assets and liabilities of the Corporation or any sale of all or substantially all of the assets of the Corporation:

- (a) all Senior Indebtedness shall first be paid in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness), or provision made for such payment in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness), before any payment is made on account of Debenture Liabilities;
- (b) any payment or distribution of assets of the Corporation, whether in cash, property or securities, to which the holders of the Debentures or the Debenture Trustee on behalf of such holders would be entitled except for the provisions of this Article 5, shall be paid or delivered by the trustee in bankruptcy, receiver, assignee for the benefit of creditors, or

other liquidating agent making such payment or distribution, directly to the holders of Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, to the extent necessary to pay all Senior Indebtedness in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness) after giving effect to any concurrent payment or distribution, or provision therefor, to the holders of such Senior Indebtedness before any payment or distribution is made to the Debentureholders or the Debenture Trustee; and

- (c) the Senior Creditors or a receiver or a receiver-manager of the Corporation or of all or part of its assets or any other enforcement agent may sell, mortgage, or otherwise dispose of the Corporation assets in whole or in part, free and clear of all Debenture Liabilities and without the approval of the Debentureholders or the Debenture Trustee or any requirement to account to the Debenture Trustee or the Debentureholders.

The rights and priority of the Senior Indebtedness and the subordination pursuant hereto shall not be affected by:

- (i) the time, sequence or order of creating, granting, executing, delivering of, or registering, perfecting or failing to register or perfect any security notice, caveat, financing statement or other notice in respect of the Senior Security;
- (ii) the time or order of the attachment, perfection or crystallization of any security constituted by the Senior Security;
- (iii) the taking of any collection, enforcement or realization proceedings pursuant to the Senior Security;
- (iv) the date of obtaining of any judgment or order of any bankruptcy court or any court administering bankruptcy, insolvency or similar proceedings as to the entitlement of the Senior Creditors, or any of them or the Debentureholders or any of them to any money or property of the Corporation;
- (v) the failure to exercise any power or remedy reserved to the Senior Creditors under the Senior Security or to insist upon a strict compliance with any terms thereof;
- (vi) whether any Senior Security is now perfected, hereafter ceases to be perfected, is voidable by any trustee in bankruptcy or like official or is otherwise set aside, invalidated or lapses;
- (vii) the date of giving or failing to give notice to or making demand upon the Corporation; or
- (viii) any other matter whatsoever.

5.3 Subrogation to Rights of Holders of Senior Indebtedness

Subject to the prior payment in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness) of all Senior Indebtedness, the holders of the Debentures shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions

of assets of the Corporation to the extent of the application thereto of such payments or other assets which would have been received by the holders of the Debentures but for the provisions hereof until the principal of and interest on the Debentures shall be paid in full, and no such payments or distributions to the holders of the Debentures of cash, property or securities, which otherwise would be payable or distributable to the holders of the Senior Indebtedness, shall, as between the Corporation, its creditors other than the holders of Senior Indebtedness, and the holders of Debentures, be deemed to be a payment by the Corporation to the holders of the Senior Indebtedness or on account of the Senior Indebtedness, it being understood that the provisions of this Article 5 are and are intended solely for the purpose of defining the relative rights of the holders of the Debentures, on the one hand, and the holders of Senior Indebtedness, on the other hand.

The Debenture Trustee, for itself and on behalf of each of the Debentureholders, hereby waives any and all rights to require a Senior Creditor to pursue or exhaust any rights or remedies with respect to the Corporation or any property and assets subject to the Senior Security or in any other manner to require the marshalling of property, assets or security in connection with the exercise by the Senior Creditors of any rights, remedies or recourses available to them.

5.4 Obligation to Pay Not Impaired

Nothing contained in this Article 5 or elsewhere in this Indenture or in the Debentures is intended to or shall impair, as between the Corporation, its creditors other than the holders of Senior Indebtedness, and the holders of the Debentures, the obligation of the Corporation, which is absolute and unconditional, to pay to the holders of the Debentures the principal of and interest on the Debentures, as and when the same shall become due and payable in accordance with their terms, or affect the relative rights of the holders of the Debentures and creditors of the Corporation other than the holders of the Senior Indebtedness, nor shall anything herein or therein prevent the Debenture Trustee or the holder of any Debenture from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article 5 of the holders of Senior Indebtedness.

5.5 No Payment if Senior Indebtedness in Default

Upon the maturity of any Senior Indebtedness by lapse of time, acceleration or otherwise, or any other enforcement of any Senior Indebtedness, then, except as provided in Section 5.8, all such Senior Indebtedness shall first be paid in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness), or shall first have been duly provided for, before any payment is made on account of the Debenture Liabilities or otherwise in respect of the Debentures.

In case of default or event of default with respect to or under any Senior Indebtedness permitting a Senior Creditor to demand payment or accelerate the maturity thereof, unless and until such default or event of default shall have been cured or waived or shall have ceased to exist, no payment (by purchase of Debentures or otherwise) shall be made by the Corporation with respect to any and all of the Debenture Liabilities and neither the Debenture Trustee nor the holders of Debentures shall be entitled to demand, accelerate, institute Proceedings, or receive any payment or benefit (including without limitation by set-off, combination of accounts or otherwise in any manner whatsoever) on account of the Debentures after the happening of such a default or event of default (except as provided in Section 5.8).

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Corporation or any of its Subsidiaries of any kind or character, whether in cash, property or securities, shall be received by the Debenture Trustee or the holders of Debentures before all Senior Indebtedness is paid in full in cash (or as otherwise agreed by the Senior Creditors in respect of the Senior Indebtedness) (other than any payment by issuance of Shares or other securities upon any conversion pursuant to

Article 6), such payment or distribution shall be held in trust for the benefit of, and shall be paid over to, the holders of such Senior Indebtedness or their representative or to the trustee under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, as their respective interests may appear, for application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full in cash (or as otherwise agreed by the creditors in respect of the Senior Indebtedness) after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness in respect thereof; provided, however, that the foregoing shall in no way prohibit, restrict or prevent the Debenture Trustee from taking such actions as may be necessary to preserve claims of the Debenture Trustee and/or the holders of the Debentures under this Indenture in any bankruptcy, reorganization or insolvency proceeding (including, without limitation, the filing of proofs of claim in any such bankruptcy, reorganization or insolvency proceedings by or against the Corporation or its Subsidiaries and exercising its rights to vote as an unsecured creditor under any such bankruptcy, reorganization or insolvency proceedings commenced by or against the Corporation or its Subsidiaries). The fact that any payment hereunder is prohibited by this Section 5.5 shall not prevent the failure to make such payment from being an Event of Default hereunder.

5.6 Payment on Debentures Permitted

Nothing contained in this Article 5 or elsewhere in this Indenture, or in any of the Debentures, shall affect the obligation of the Corporation to make, or prevent the Corporation from making, at any time except as prohibited by Section 5.5, any payment of principal of or interest on the Debentures. The fact that any such payment is prohibited by Section 5.5 shall not prevent the failure to make such payment from being an Event of Default hereunder. Nothing contained in this Article 5 or elsewhere in this Indenture, or in any of the Debentures, shall prevent the conversion of the Debentures or, except as prohibited by Section 5.5, the application by the Debenture Trustee of any monies deposited with the Debenture Trustee hereunder for the purpose, to the payment of or on account of the Debenture Liabilities.

5.7 Confirmation of Subordination

Each holder of Debentures by his acceptance thereof authorizes and directs the Debenture Trustee on his behalf to take such action as may be necessary or appropriate to effect the subordination as provided in this Article 5 and appoints the Debenture Trustee his attorney-in-fact for any and all such purposes. This power of attorney, being coupled with an interest and rights, shall be irrevocable. Upon request of the Corporation, and upon being furnished a Certificate of the Corporation stating that one or more named persons are Senior Creditors and specifying the amount and nature of the Senior Indebtedness of such Senior Creditor, the Debenture Trustee shall enter into a written agreement or agreements with the Corporation and the person or persons named in such Certificate of the Corporation providing that such person or persons are entitled to all the rights and benefits of this Article 5 as a Senior Creditor. Such agreement shall be conclusive evidence that the indebtedness specified therein is Senior Indebtedness. However, nothing herein shall impair the rights of any Senior Creditor who has not entered into such an agreement.

5.8 Knowledge of Debenture Trustee

Notwithstanding the provisions of this Article 5 or any provision in this Indenture or in the Debentures contained, the Debenture Trustee will not be charged with knowledge of any Senior Indebtedness or of any default in the payment thereof or any other default or event of default, or of the existence of any other fact that would prohibit the making of any payment of monies to or by the Debenture Trustee, or the taking of any other action by the Debenture Trustee, unless and until the Debenture Trustee has received written notice thereof from the Corporation, any Debentureholder, any

Senior Creditor or a trustee on behalf of any one or more Senior Creditors, and such notice to the Debenture Trustee shall be deemed to be notice to holders of the Debentures.

5.9 Debenture Trustee May Hold Senior Indebtedness

The Debenture Trustee is entitled to all the rights set forth in this Article 5 with respect to any Senior Indebtedness at the time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture deprives the Debenture Trustee of any of its rights as such holder of Senior Indebtedness.

5.10 Rights of Holders of Senior Indebtedness Not Impaired

No right of any present or future holder of any Senior Indebtedness to enforce the subordination herein will at any time or in any way be prejudiced or impaired by any act or failure to act on the part of the Corporation or by any non-compliance by the Corporation with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with.

5.11 Altering the Senior Indebtedness

The holders of the Senior Indebtedness have the right to extend, renew, revise, restate, modify or amend the terms of the Senior Indebtedness or any security therefor and to release, sell or exchange such security and otherwise to deal freely with the Corporation, all without notice to or consent of the Debentureholders or the Debenture Trustee and without affecting the liabilities and obligations of the parties to this Indenture or the Debentureholders or the Debenture Trustee.

5.12 Additional Indebtedness

This Indenture does not restrict the Corporation from incurring additional Senior Indebtedness or other indebtedness for borrowed money (including indebtedness ranking *pari passu* with any Debentures) or otherwise or mortgaging, pledging or charging its properties to secure any indebtedness.

5.13 Right of Debentureholder to Convert Not Impaired

The subordination of the Debentures to the Senior Indebtedness and the provisions of this Article 5 do not impair in any way the right of a Debentureholder to convert its Debentures pursuant to Article 6.

5.14 Invalidated Payments

In the event that any of the Senior Indebtedness shall be paid in full and subsequently, for whatever reason, such formerly paid or satisfied Senior Indebtedness becomes unpaid or unsatisfied, the terms and conditions of this Article 5 shall be reinstated and the provisions of this Article shall again be operative until all Senior Indebtedness is repaid in full, provided that such reinstatement shall not give the Senior Creditors any rights or recourses against the Debenture Trustee or the Debentureholders for amounts paid to the Debentureholders subsequent to such payment or satisfaction in full and prior to such reinstatement.

5.15 Contesting Security

The Debenture Trustee, for itself and on behalf of the Debentureholders, agrees that it shall not contest or bring into question the validity, perfection or enforceability of any of the Senior Security, or the relative priority of the Senior Security.

5.16 Obligations Created by Article 5

The Corporation and the Debenture Trustee, in its capacity as trustee hereunder and not in its corporate personal capacity, agree, and each holder by its acceptance of a Debenture likewise agrees, that:

- (a) the provisions of this Article 5 are an inducement and consideration to each holder of Senior Indebtedness to give or continue credit to the Corporation, its Subsidiaries or others or to acquire Senior Indebtedness;
- (b) each holder of Senior Indebtedness may accept the benefit of this Article 5 on the terms and conditions set forth in this Article 5 by giving or continuing credit to the Corporation, its Subsidiaries or others or by acquiring Senior Indebtedness, in each case without notice to the Debenture Trustee and without establishing actual reliance on this Article 5; and
- (c) each obligation created by this Article 5 is created for the benefit of the holders of Senior Indebtedness and is hereby declared to be created in trust for those holders by the Corporation, the Debenture Trustee and each holder of a Debenture and shall be binding on the Corporation, the Debenture Trustee and each holder of a Debenture whether or not the confirmation described in Section 5.7 is requested, executed or delivered.

5.17 No Set-Off

Each of the Corporation and the Debenture Trustee agrees, and each holder of a Debenture, by his acceptance thereof, likewise agrees, that it shall have no rights of set-off or counterclaim with respect to the principal of, premium, if any, and interest on the Debentures at any time when any payment of, or in respect of, such amounts to the Debenture Trustee or the holder of a Debenture is prohibited by this Article 5 or is otherwise required to be paid to the holders of Senior Indebtedness or their representative or to the trustee under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, as their respective interests may appear.

5.18 Amendments to Article 5

Each of the Corporation and the Debenture Trustee agrees, and each holder of a Debenture, by his acceptance thereof, likewise agrees, not to make any changes to this Indenture or the Debentures, including this Article 5 or the definition of Senior Indebtedness, which prejudice the rights of the holders of Senior Indebtedness under this Article 5 without the consent of the holders of Senior Indebtedness, including the Senior Creditors under the Senior Credit Agreements, or their representative or the trustee under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued.

ARTICLE 6 CONVERSION OF DEBENTURES

6.1 Applicability of Article

Any Debentures issued hereunder of any series which by their terms are convertible (subject, however, to any applicable restriction of the conversion of Debentures of such series such as those contained in Section 2.4(e)) will be convertible into Shares or other securities, at such conversion rate or rates, and on such date or dates and in accordance with such other provisions as shall have been determined at the time of issue of such Debentures and shall have been expressed in this Indenture, in such Debentures, in a Certificate of the Corporation, or in a supplemental indenture authorizing or providing for the issue thereof.

Such right of conversion shall extend only to the maximum number of whole Shares into which the aggregate principal amount of the Debenture or Debentures surrendered for conversion at any one time by the holder thereof may be converted. Fractional interests in Shares shall be adjusted for in the manner provided in Section 6.6.

6.2 Notice of Expiry of Conversion Privilege

Notice of the expiry of the conversion privileges of the Debentures shall be given by or on behalf of the Corporation, not more than 60 days and not less than 30 days prior to the date fixed for the Time of Expiry, in the manner provided in Section 14.2.

6.3 Revival of Right to Convert

If the redemption of any Debenture called for redemption by the Corporation is not made or the payment of the purchase price of any Debenture which has been tendered in acceptance of any offer by the Corporation to purchase Debentures for cancellation is not made, in the case of a redemption upon due surrender of such Debenture or in the case of a purchase on the date on which such purchase is required to be made, as the case may be, then the right to convert such Debenture shall revive and continue as if such Debenture had not been called for redemption or tendered in acceptance of the Corporation's offer, respectively.

6.4 Manner of Exercise of Right to Convert

- (a) The holder of a Debenture desiring to convert such Debenture in whole or in part into Shares shall surrender such Debenture to the Debenture Trustee at its principal offices in Vancouver or Toronto together with the conversion form attached hereto as Schedule D or any other written notice in a form satisfactory to the Debenture Trustee, in either case duly executed by the holder or his or her executors or administrators or other legal representatives or his, her or their attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Debenture Trustee, exercising his or her right to convert such Debenture in accordance with the provisions of this Article; provided that with respect to a Global Debenture, the obligation to surrender a Debenture to the Debenture Trustee shall be satisfied if the Debenture Trustee makes notation on the Global Debenture of the principal amount thereof so converted and the Debenture Trustee is provided with all other documentation which it may request or the Debenture Trustee may adjust the electronic register to note the decrease as a result of the conversion by the Depository and the Debenture Trustee shall not be required to obtain a Schedule D from the Depository but may rely on an electronic request from the Depository to perform the

conversion in such form as is acceptable to the Debenture Trustee. Thereupon such Debentureholder or, subject to payment of all applicable stamp or security transfer taxes or other governmental charges and compliance with all reasonable requirements of the Debenture Trustee, his or her nominee(s) or assignee(s) shall be entitled to be entered in the books of the Corporation on the business day immediately after the Date of Conversion (or such later date as is specified in Section 6.4(b)) as the holder of the number of Shares into which such Debenture is convertible, net of applicable withholding taxes, if any, in accordance with the provisions of this Article and, as soon as practicable thereafter, the Corporation shall deliver to such Debentureholder or, subject as aforesaid, his or her nominee(s) or assignee(s), a certificate or certificates for such Shares and make or cause to be made any payment of interest to which such holder is entitled in accordance with Section 6.4(e) hereof or in respect of fractional Shares as provided in Section 6.6.

- (b) For the purposes of this Article, a Debenture shall be deemed to be surrendered for conversion on the date (herein called the "Date of Conversion") on which it is so surrendered when the register of the Debenture Trustee is open and in accordance with the provisions of this Article or, in the case of a Global Debenture which the Debenture Trustee received notice of and all necessary documentation in respect of the exercise of the conversion rights and, in the case of a Debenture so surrendered by post or other means of transmission, on the date on which it is received by the Debenture Trustee at its office specified in Section 6.4(a); provided that if a Debenture is surrendered for conversion on a day on which the register of Shares is closed, the Person or Persons entitled to receive Shares shall become the holder or holders of record of such Shares as at the date on which such registers are next reopened.
- (c) Any part, being \$1,000 or an integral multiple thereof, of a Debenture in a denomination in excess of \$1,000 may be converted as provided in this Article and all references in this Indenture to conversion of Debentures shall be deemed to include conversion of such parts.
- (d) The holder of any Debenture of which only a part is converted shall, upon the exercise of his or her right of conversion, surrender such Debenture to the Debenture Trustee, and the Debenture Trustee shall cancel the same and shall without charge forthwith certify and deliver to the holder a new Debenture or Debentures in an aggregate principal amount equal to the unconverted part of the principal amount of the Debenture so surrendered or, with respect to a Global Debenture, the Depository shall make notations on the Global Debentures of the principal amount thereof so converted.
- (e) The holder of a Debenture surrendered for conversion in accordance with this Section 6.4 shall be entitled (subject to any applicable restriction on the right to receive interest on conversion of Debentures of any series) to receive accrued and unpaid interest from the most recently completed Interest Payment Date to but excluding the Date of Conversion (less applicable withholding taxes, if any) and the Shares issued upon such conversion shall rank only in respect of distributions or dividends declared in favour of shareholders of record on and after the Date of Conversion or such later date as such holder shall become the holder of record of such Shares pursuant to Section 6.4(b), from which applicable date they will for all purposes be and be deemed to be issued and outstanding as fully paid and non-assessable Shares.

6.5

Adjustment of Conversion Price

The Conversion Price in effect at any date shall be subject to adjustment from time to time as set forth below.

- (a) If and whenever at any time prior to the Time of Expiry the Corporation shall (i) subdivide or redivide the outstanding Shares into a greater number of shares, (ii) reduce, combine or consolidate the outstanding Shares into a smaller number of shares, or (iii) issue Shares to the holders of all or substantially all of the outstanding Shares by way of a dividend or distribution (other than the issue of Shares to holders of Shares who have elected to receive dividends or distributions in the form of Shares in lieu of cash dividends or cash distributions paid in the ordinary course on the Shares), the Conversion Price in effect on the effective date of such subdivision, redivision, reduction, combination or consolidation or on the record date for such issue of Shares by way of a dividend or distribution, as the case may be, shall in the case of any of the events referred to in (i) and (iii) above be decreased in proportion to the number of outstanding Shares resulting from such subdivision, redivision or dividend, or shall, in the case of any of the events referred to in (ii) above, be increased in proportion to the number of outstanding Shares resulting from such reduction, combination or consolidation. Such adjustment shall be made successively whenever any event referred to in this Section 6.5(a) shall occur. Any such issue of Shares by way of a dividend or distribution shall be deemed to have been made on the record date for the dividend or distribution for the purpose of calculating the number of outstanding Shares under subsections (b) and (c) of this Section 6.5.
- (b) If and whenever at any time prior to the Time of Expiry the Corporation shall fix a record date for the issuance of options, rights or warrants to all or substantially all the holders of its outstanding Shares entitling them, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Shares (or securities convertible into Shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the Current Market Price of a Share on such record date, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Shares outstanding on such record date plus a number of Shares equal to the number arrived at by dividing the aggregate price of the total number of additional Shares offered for subscription or purchase (or the aggregate conversion or exchange price of the convertible securities so offered) by such Current Market Price per Share, and of which the denominator shall be the total number of Shares outstanding on such record date plus the total number of additional Shares offered for subscription or purchase (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever such a record date is fixed. To the extent that any such options, rights or warrants are not so issued or any such options, rights or warrants are not exercised prior to the expiration thereof, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Price which would then be in effect based upon the number of Shares (or securities convertible into Shares) actually issued upon the exercise of such options, rights or warrants, as the case may be.
- (c) If and whenever at any time prior to the Time of Expiry the Corporation shall fix a record date for the making of a distribution to all or substantially all the holders of its

outstanding Shares of (i) shares of any class other than Shares and other than shares distributed to holders of Shares who have elected to receive dividends or distributions in the form of such shares in lieu of dividends or distributions paid in the ordinary course, (ii) rights, options or warrants (excluding rights, options or warrants entitling the holders thereof for a period of not more than 45 days to subscribe for or purchase Shares or securities convertible into Shares), (iii) evidences of its indebtedness, or (iv) assets (excluding dividends or distributions paid in the ordinary course) then, in each such case, the Conversion Price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the Conversion Price in effect on such record date by a fraction, of which the numerator shall be the total number of Shares outstanding on such record date multiplied by the Current Market Price per Share on such record date, less the fair market value (as determined by the Directors, with the approval of the Debenture Trustee, which determination shall be conclusive) of such shares or rights, options or warrants or evidences of indebtedness or assets so distributed, and of which the denominator shall be the total number of Shares outstanding on such record date multiplied by such Current Market Price per Share. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such distribution is not so made, the Conversion Price shall be re-adjusted to the Conversion Price which would then be in effect if such record date had not been fixed or to the Conversion Price which would then be in effect based upon such shares or rights, options or warrants or evidences of indebtedness or assets actually distributed, as the case may be. In clause (iv) of this subsection (c) the term "dividends or distributions paid in the ordinary course" shall include the value of any securities or other property or assets distributed in lieu of cash dividends or distributions paid in the ordinary course at the option of holders of Shares.

- (d) If and whenever at any time prior to the Time of Expiry, there is a reclassification of the Shares or a capital reorganization of the Corporation other than as described in Section 6.5(a) or a consolidation, amalgamation, arrangement or merger of the Corporation with or into any other Person or other entity, or a sale or conveyance of the property and assets of the Corporation as an entirety or substantially as an entirety to any other Person or other entity or a liquidation, dissolution or winding-up of the Corporation, any holder of a Debenture who has not exercised its right of conversion prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement or merger, sale or conveyance or liquidation, dissolution or winding-up or other similar transaction, upon the exercise of such right thereafter, shall be entitled to receive and shall accept, in lieu of the number of Shares then sought to be acquired by it, the number of partnership units, trust units, shares or other securities or property of the Corporation or of the Person or other entity resulting from such merger, amalgamation or consolidation or other similar transaction, or to which such sale or conveyance may be made or which holders of Shares receive pursuant to such liquidation, dissolution or winding-up, as the case may be, that such holder of a Debenture would have been entitled to receive on such reclassification, capital reorganization, consolidation, amalgamation, arrangement or merger, sale or conveyance or liquidation, dissolution or winding-up or other similar transaction, if, on the record date or the effective date thereof, as the case may be, the holder had been the registered holder of the number of Shares sought to be acquired by it and to which it was entitled to acquire upon the exercise of the conversion right. If determined appropriate by the Directors, to give effect to or to evidence the provisions of this Section 6.5(d), the Corporation, its successor, or such purchasing Person or other entity, as the case may be, shall, prior to or contemporaneously with any such reclassification, capital

reorganization, consolidation, amalgamation, arrangement, merger, sale or conveyance or liquidation, dissolution or winding-up or other similar transaction, enter into an indenture which shall provide, to the extent possible, for the application of the provisions set forth in this Indenture with respect to the rights and interests thereafter of the holder of Debentures to the end that the provisions set forth in this Indenture shall thereafter correspondingly be made applicable, as nearly as may reasonably be, with respect to any partnership units, trust units, shares or other securities or property to which a holder of Debentures is entitled on the exercise of its acquisition rights thereafter. Any indenture entered into between the Corporation and the Debenture Trustee pursuant to the provisions of this Section 6.5(d) shall be a supplemental indenture entered into pursuant to the provisions of Article 16. Any indenture entered into between the Corporation, any successor to the Corporation or such purchasing Person or other entity and the Debenture Trustee shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section 6.5(d) and which shall apply to successive reclassifications, capital reorganizations, amalgamations, consolidations, mergers, sales or conveyances or other similar transactions.

- (e) In any case in which this Section 6.5 shall require that an adjustment shall become effective immediately after a record date for an event referred to herein, the Corporation may defer, until the occurrence of such event, issuing to the holder of any Debenture converted after such record date and before the occurrence of such event the additional Shares issuable upon such conversion by reason of the adjustment required by such event before giving effect to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Shares upon the occurrence of the event requiring such adjustment and the right to receive any distributions made on such additional Shares declared in favour of holders of record of Shares on and after the Date of Conversion or such later date as such holder would, but for the provisions of this Section 6.5(e), have become the holder of record of such additional Shares pursuant to Section 6.4(b).
- (f) The adjustments provided for in this Section 6.5 are cumulative and shall apply to successive subdivisions, redivisions, reductions, combinations, consolidations, distributions, issues or other events resulting in any adjustment under the provisions of this Section, provided that, notwithstanding any other provision of this Section, no adjustment of the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided however, that any adjustments which by reason of this Section 6.5(f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. There will be no adjustment of the Conversion Price in respect of any event described in subsections 6.5(b) and (c) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date.
- (g) For the purpose of calculating the number of Shares outstanding, Shares owned by or for the benefit of the Corporation shall not be counted.
- (h) In the event of any question arising with respect to the adjustments provided in this Section 6.5, such question shall be conclusively determined by a firm of chartered accountants appointed by the Corporation and acceptable to the Debenture Trustee (who may be the auditors of the Corporation); such accountants shall have access to all

necessary records of the Corporation and such determination shall be binding upon the Corporation, the Debenture Trustee, and the Debentureholders.

- (i) In case the Corporation shall take any action affecting the Shares other than action described in this Section 6.5, which in the opinion of the Directors, would materially affect the rights of Debentureholders, the Conversion Price shall be adjusted in such manner and at such time, by action of the Directors, subject to the prior written consent of the Toronto Stock Exchange or such other exchange on which the Debentures are then listed, as the Directors, in their sole discretion may determine to be equitable in the circumstances. Failure of the Directors to make such an adjustment shall be conclusive evidence that they have determined that it is equitable to make no adjustment in the circumstances.
- (j) Subject to the prior written consent of the Toronto Stock Exchange or such other exchange on which the Debentures are then listed, no adjustment in the Conversion Price shall be made in respect of any event described in Sections 6.5(a), 6.5(b) or 6.5(c) other than the events described in 6.5(a)(i) or 6.5(a)(ii) if the holders of the Debentures are entitled to participate in such event on the same terms mutatis mutandis as though and with the same effect as if they had converted their Debentures prior to the effective date or record date, as the case may be, of such event.
- (k) Except as stated above in this Section 6.5, no adjustment will be made in the Conversion Price for any Debentures as a result of the issuance of Shares at less than the Current Market Price for such Shares on the date of issuance or the then applicable Conversion Price.

6.6 No Requirement to Issue Fractional Shares

The Corporation shall not be required to issue fractional Shares upon the conversion of Debentures pursuant to this Article. If more than one Debenture shall be surrendered for conversion at one time by the same holder, the number of whole Shares issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of such Debentures to be converted. If any fractional interest in a Share would, except for the provisions of this Section, be deliverable upon the conversion of any principal amount of Debentures, the Corporation shall, in lieu of delivering any certificate representing such fractional interest, make a cash payment to the holder of such Debenture of an amount equal to the fractional interest which would have been issuable multiplied by the Current Market Price, less applicable withholding taxes, if any.

6.7 Corporation to Reserve Shares

The Corporation covenants with the Debenture Trustee that it will at all times reserve and keep available out of its authorized Shares (if the number thereof is or becomes limited), solely for the purpose of issue upon conversion of Debentures as in this Article provided, and conditionally allot to Debentureholders who may exercise their conversion rights hereunder, such number of Shares as shall then be issuable upon the conversion of all outstanding Debentures. The Corporation covenants with the Debenture Trustee that all Shares which shall be so issuable shall be duly and validly issued as fully-paid and non-assessable.

6.8 Cancellation of Converted Debentures

Subject to the provisions of Section 6.4 as to Debentures converted in part, all Debentures converted in whole or in part under the provisions of this Article shall be forthwith delivered to and cancelled by the Debenture Trustee and no Debenture shall be issued in substitution therefor.

6.9 Certificate as to Adjustment

The Corporation shall from time to time immediately after the occurrence of any event which requires an adjustment or readjustment as provided in Section 6.5, deliver a Certificate of the Corporation to the Debenture Trustee specifying the nature of the event requiring the same and the amount of the adjustment necessitated thereby and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based, which certificate and the amount of the adjustment specified therein shall be verified by an opinion of a firm of chartered accountants appointed by the Corporation and acceptable to the Debenture Trustee (who may be the auditors of the Corporation) and shall be conclusive and binding on all parties in interest. When so approved, the Corporation shall forthwith give notice to the Debentureholders in the manner provided in Section 14.2 specifying the event requiring such adjustment or readjustment and the results thereof, including the resulting Conversion Price.

6.10 Notice of Special Matters

The Corporation covenants with the Debenture Trustee that so long as any Debenture remains outstanding, it will give notice to the Debenture Trustee, and to the Debentureholders in the manner provided in Section 14.2, of its intention to fix a record date for any event referred to in Section 6.5(a), (b) or (c) (other than the subdivision, redivision, reduction, combination or consolidation of its Shares) which may give rise to an adjustment in the Conversion Price, and, in each case, such notice shall specify the particulars of such event and the record date and the effective date for such event; provided that the Corporation shall only be required to specify in such notice such particulars of such event as shall have been fixed and determined on the date on which such notice is given. Such notice shall be given not less than fourteen (14) days in each case prior to such applicable record date.

6.11 Protection of Debenture Trustee

Subject to Section 15.3, the Debenture Trustee:

- (a) shall not at any time be under any duty or responsibility to any Debentureholder to determine whether any facts exist which may require any adjustment in the Conversion Price, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed in making the same;
- (b) shall not be accountable with respect to the validity or value (or the kind or amount) of any Shares or of any units, shares or other securities or property which may at any time be issued or delivered upon the conversion of any Debenture; and
- (c) shall not be responsible for any failure of the Corporation to make any cash payment or to issue, transfer or deliver Shares, units or share certificates upon the surrender of any Debenture for the purpose of conversion, or to comply with any of the covenants contained in this Article.

6.12 Legend on Shares

Each certificate representing Shares issued upon conversion of Debentures pursuant to this Article 6, as well as all certificates issued in exchange for or in substitution of the foregoing securities, may have imprinted or otherwise reproduced thereon such legend or legends or endorsements, not inconsistent with the provisions of this Indenture, as may be required to comply with any law or with any rules or regulations pursuant thereto or with any rules or regulations of any securities exchange or securities regulatory authority or to conform to general usage, all as may be determined by the Corporation, as conclusively evidenced by the issue of such certificates.

ARTICLE 7 COVENANTS OF THE CORPORATION

The Corporation hereby covenants and agrees with the Debenture Trustee for the benefit of the Debenture Trustee and the Debentureholders, that so long as any Debentures remain outstanding:

7.1 To Pay Principal and Interest

The Corporation will duly and punctually pay or cause to be paid to every Debentureholder the principal of and interest accrued on the Debentures of which it is the holder on the dates, at the places and in the manner mentioned herein and in the Debentures.

7.2 Maintenance of Office

The Corporation will maintain an Office where notices and demands to or upon the Corporation in respect of the Debentures, this Indenture and related matters may be served. The Corporation will give prompt written notice to the Debenture Trustee of the location, and any change in the location, of any such Office. If at any time the Corporation shall fail to maintain such required Office, such notices and demands may be made or served at the principal corporate trust office of the Debenture Trustee in Vancouver, British Columbia, and the Corporation hereby appoints the Debenture Trustee as its agent to receive all such notices and demands.

7.3 To Pay Debenture Trustee's Remuneration

The Corporation will pay the Debenture Trustee reasonable remuneration for its services as Debenture Trustee hereunder and will repay to the Debenture Trustee on demand all monies which shall have been paid by the Debenture Trustee in connection with the execution of the trusts hereby created and such monies including the Debenture Trustee's remuneration, shall be payable out of any funds coming into the possession of the Debenture Trustee in priority to any of the Debentures or interest thereon. Such remuneration shall continue to be payable until the trusts hereof be finally wound up and whether or not the trusts of this Indenture shall be in the course of administration by or under the direction of a court of competent jurisdiction.

7.4 To Give Notice of Default

The Corporation shall notify the Debenture Trustee immediately upon obtaining knowledge of any default or Event of Default hereunder.

7.5 Preservation of Existence, etc.

Subject to the express provisions hereof, the Corporation will carry on and conduct its activities, and cause its Subsidiaries to carry on and conduct their businesses, in a proper, efficient and business-like manner and in accordance with good business practices; and, subject to the express provisions hereof, it will do or cause to be done all things necessary to preserve and keep in full force and effect its existence.

7.6 Keeping of Books

The Corporation will keep or cause to be kept proper books of record and account, in accordance with generally accepted accounting principles.

7.7 To Provide Financial Statements

The Corporation will furnish to the Debenture Trustee and to each holder of Debentures a copy of all consolidated financial statements of the Corporation, whether annual or interim and the report, if any, of the Corporation's auditors thereon and all annual or periodic financial reports of the Corporation, which are furnished to the holders of Shares promptly upon the distribution thereof to the holders of the Shares, provided that the Corporation shall not be required to furnish such statements and reports where holders of Debentures have elected not to receive them in accordance with applicable securities laws.

7.8 No Distributions on Shares if Event of Default

The Corporation shall not declare or make any distribution to the holders of its issued and outstanding Shares after the occurrence of an Event of Default unless and until such default shall have been cured or waived or shall have ceased to exist.

7.9 Performance of Covenants by Debenture Trustee

If the Corporation shall fail to perform any of its covenants contained in this Indenture, the Debenture Trustee may notify the Debentureholders of such failure on the part of the Corporation or may itself perform any of the covenants capable of being performed by it, but (subject to Sections 8.2 and 15.3) shall be under no obligation to do so or to notify the Debentureholders. All sums so expended or advanced by the Debenture Trustee shall be repayable as provided in Section 7.2. No such performance, expenditure or advance by the Debenture Trustee shall be deemed to release the Corporation from or be a waiver of any default resulting from, the Corporation's failure to perform its applicable covenant or to relieve the Corporation of any default hereunder or from its continuing indebtedness.

7.10 Listing

The Corporation shall use commercially reasonable efforts to ensure that the Shares and the Debentures are listed and posted for trading on the Toronto Stock Exchange, and shall maintain such listing and posting for trading of the Shares and the Debentures on the Toronto Stock Exchange, and to maintain the Corporation's status as a "reporting issuer" not in default of Applicable Securities Legislation; provided that, for greater certainty, the foregoing covenant shall not prevent or restrict the Corporation from carrying out a transaction in compliance with Article 11 even if as a result of such transaction the Corporation ceases to be a "reporting issuer" in all or any of the provinces or territories of Canada or the Shares or Debentures cease to be listed on the Toronto Stock Exchange or any other stock exchange.

The Corporation confirms that as at the date of execution of this agreement it does not have a class of securities registered pursuant to Section 12 of the US Securities Exchange Act or have a reporting obligation pursuant to Section 15(d) of the US Securities Exchange Act. The Corporation covenants that in the event that (i) any class of its securities shall become registered pursuant to Section 12 of the US Securities Exchange Act or the Corporation shall incur a reporting obligation pursuant to Section 15(d) of the US Securities Exchange Act, or (ii) any such registration or reporting obligation shall be terminated by the Corporation in accordance with the US Securities Exchange Act, the Corporation shall promptly deliver to the Debenture Trustee an Officers' Certificate (in a form provided by the Debenture Trustee) notifying the Debenture Trustee of such registration or termination and such other information as the Debenture Trustee may require at the time. The Corporation acknowledges that the Debenture Trustee is relying upon the foregoing representation and covenants in order to meet certain SEC obligations with respect to those clients who are filing with the SEC.

ARTICLE 8 DEFAULT

8.1 Events of Default

Each of the following events constitutes, and is herein sometimes referred to as, an "Event of Default":

- (a) the Corporation's failure for 15 days to pay interest on the Debentures when due;
- (b) the Corporation's failure to pay principal or premium, if any, on the Debentures when due whether at maturity, upon redemption, by declaration or otherwise;
- (c) default in the observance or performance of, or a breach of, any material covenant or condition of the Indenture or agreement of the Corporation in respect of the Indenture by the Corporation for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Corporation specifying such default or breach and requiring the Corporation to remedy such default or breach;
- (d) if a decree or order of a Court having jurisdiction is entered adjudging the Corporation a bankrupt or insolvent under the *Bankruptcy and Insolvency Act* (Canada) or any other bankruptcy, insolvency or analogous laws, or issuing sequestration or process of execution against, or against any substantial part of, the property of the Corporation, or appointing a receiver of, or of any substantial part of, the property of the Corporation or ordering the winding-up or liquidation of its affairs, and any such decree or order continues unstayed and in effect for a period of 60 days;
- (e) if the Corporation institutes proceedings to be adjudicated a bankrupt or insolvent, or consents to the institution of bankruptcy or insolvency case or proceeding against it under the *Bankruptcy and Insolvency Act* (Canada) or any other bankruptcy, insolvency or analogous laws, or consents to the filing of any such petition, or to the appointment of a receiver of, or of any substantial part of, the property of the Corporation or makes a general assignment for the benefit of creditors or, files a proposal or other scheme of arrangement involving the rescheduling or composition of its indebtedness, or admits in writing its inability to pay its debts generally as they become due;

- (f) if a resolution is passed for the winding-up or liquidation of the Corporation except in the course of carrying out or pursuant to a transaction in respect of which the conditions of Section 11.1 are duly observed and performed; or
- (g) if, after the date of this Indenture, any proceedings with respect to the Corporation are taken with respect to a compromise or arrangement, with respect to creditors of the Corporation generally, under the applicable legislation of any jurisdiction.

Upon the occurrence of an Event of Default, the Debenture Trustee may, in its discretion, and shall, upon receipt of a request in writing signed by the holders of not less than 25% in principal amount of the Debentures then outstanding and subject to the provisions of Section 8.3, by notice in writing to the Corporation declare the principal of and interest on all Debentures then outstanding and all other monies outstanding hereunder to be due and payable and the same shall forthwith become immediately due and payable to the Debenture Trustee, and the Corporation shall forthwith pay to the Debenture Trustee for the benefit of the Debentureholders such principal, accrued and unpaid interest and interest on amounts in default on such Debenture (and, where such a declaration is based upon a voluntary winding-up or liquidation of the Corporation, the premium, if any, on the Debentures then outstanding which would have been payable upon the redemption thereof by the Corporation on the date of such declaration) and all other monies outstanding hereunder, together with subsequent interest at the rate borne by the Debentures on such principal, interest and such other monies from the date of such declaration until payment is received by the Debenture Trustee, such subsequent interest to be payable at the times and places and in the monies mentioned in and according to the tenor of the Debentures. Such payment when made shall be deemed to have been made in discharge of the Corporation's obligations hereunder and any monies so received by the Debenture Trustee shall be applied in the manner provided in Section 8.6.

8.2 Notice of Events of Default

If an Event of Default shall occur and be continuing the Debenture Trustee shall, within 30 days after it receives written notice of the occurrence of such Event of Default, give notice of such Event of Default to the Debentureholders in the manner provided in Section 14.2, provided that notwithstanding the foregoing, unless the Debenture Trustee shall have been requested to do so by the holders of at least 25% of the principal amount of the Debentures then outstanding, the Debenture Trustee shall not be required to give such notice if the Debenture Trustee in good faith shall have determined that the withholding of such notice is in the best interests of the Debentureholders and shall have so advised the Corporation in writing.

When notice of the occurrence of an Event of Default has been given and the Event of Default is thereafter cured, where applicable, notice that the Event of Default is no longer continuing shall be given by the Debenture Trustee to the Debentureholders within 15 days after the Debenture Trustee becomes aware the Event of Default has been cured in the manner provided in Section 14.2 and the Debenture Trustee shall so advise the Corporation in the manner provided in Section 14.1.

8.3 Waiver of Default

Upon the happening of any Event of Default hereunder:

- (a) the holders of the Debentures shall have the power (in addition to the powers exercisable by Extraordinary Resolution as hereinafter provided) by requisition in writing by the holders of a majority of the principal amount of Debentures then outstanding, to instruct the Debenture Trustee to waive any Event of Default and to cancel any declaration made by the Debenture Trustee pursuant to Section 8.1 and the Debenture Trustee shall

thereupon waive the Event of Default and cancel such declaration upon such terms and conditions as shall be prescribed in such requisition; provided that notwithstanding the foregoing if the Event of Default has occurred by reason of the non-observance or non-performance by the Corporation of any covenant applicable only to one or more series of Debentures, then the holders of a majority of the principal amount of the outstanding Debentures of that series shall be entitled to exercise the foregoing power and the Debenture Trustee shall so act and it shall not be necessary to obtain a waiver from the holders of any other series of Debentures; and

- (b) the Debenture Trustee, so long as it has not become bound to declare the principal, premium (if any) and interest on the Debentures then outstanding to be due and payable, or to obtain or enforce payment of the same, shall have power to waive any Event of Default if, in the Debenture Trustee's opinion, based on the advice of counsel, the same shall have been cured or adequate satisfaction made therefor, and in such event to cancel any such declaration theretofore made by the Debenture Trustee in the exercise of its discretion, upon such terms and conditions as the Debenture Trustee may deem advisable.

No such act or omission either of the Debenture Trustee or of the Debentureholders shall extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

8.4 Enforcement by the Debenture Trustee

Subject to the provisions of Section 8.3 and to the provisions of any Extraordinary Resolution that may be passed by the Debentureholders, if the Corporation shall fail to pay to the Debenture Trustee, forthwith after the same shall have been declared to be due and payable under Section 8.1, the principal of and premium (if any) and interest on all Debentures then outstanding, together with any other amounts due hereunder, the Debenture Trustee may in its discretion and shall upon receipt of a request in writing signed by the holders of not less than 25% in principal amount of the Debentures then outstanding and upon being funded and indemnified to its reasonable satisfaction against all costs, expenses and liabilities to be incurred, proceed in its name as trustee hereunder to obtain or enforce payment of such principal of and premium (if any) and interest on all the Debentures then outstanding together with any other amounts due hereunder by such proceedings authorized by this Indenture or by law or equity as the Debenture Trustee in such request shall have been directed to take, or if such request contains no such direction, or if the Debenture Trustee shall act without such request, then by such proceedings authorized by this Indenture or by suit at law or in equity as the Debenture Trustee shall deem expedient.

The Debenture Trustee shall be entitled and empowered, either in its own name or as Debenture Trustee of an express trust, or as attorney-in-fact for the holders of the Debentures, or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Debenture Trustee and of the holders of the Debentures allowed in any insolvency, bankruptcy, liquidation or other judicial proceedings relative to the Corporation or its creditors or relative to or affecting its property. The Debenture Trustee is hereby irrevocably appointed (and the successive respective holders of the Debentures by taking and holding the same shall be conclusively deemed to have so appointed the Debenture Trustee) the true and lawful attorney-in-fact of the respective holders of the Debentures with authority to make and file in the respective names of the holders of the Debentures or on behalf of the holders of the Debentures as a class, subject to deduction from any such claims of the amounts of any claims filed by any of the holders of the Debentures themselves, any proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings and to receive payment of any sums

becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all such acts and things for and on behalf of such holders of the Debentures, as may be necessary or advisable in the opinion of the Debenture Trustee, in order to have the respective claims of the Debenture Trustee and of the holders of the Debentures against the Corporation or its property allowed in any such proceeding, and to receive payment of or on account of such claims; provided, however, that subject to Section 8.3, nothing contained in this Indenture shall be deemed to give to the Debenture Trustee, unless so authorized by Extraordinary Resolution, any right to accept or consent to any plan of reorganization or otherwise by action of any character in such proceeding to waive or change in any way any right of any Debentureholder.

The Debenture Trustee shall also have the power at any time and from time to time to institute and to maintain such suits and proceedings as it may be advised shall be necessary or advisable to preserve and protect its interests and the interests of the Debentureholders.

All rights of action hereunder may be enforced by the Debenture Trustee without the possession of any of the Debentures or the production thereof on the trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Debenture Trustee shall be brought in the name of the Debenture Trustee as trustee of an express trust, and any recovery of judgment shall be for the rateable benefit of the holders of the Debentures subject to the provisions of this Indenture. In any proceeding brought by the Debenture Trustee (and also any proceeding in which a declaratory judgment of a court may be sought as to the interpretation or construction of any provision of this Indenture, to which the Debenture Trustee shall be a party) the Debenture Trustee shall be held to represent all the holders of the Debentures, and it shall not be necessary to make any holders of the Debentures parties to any such proceeding.

8.5 No Suits by Debentureholders

No holder of any Debenture shall have any right to institute any action, suit or proceeding at law or in equity for the purpose of enforcing payment of the principal of or interest on the Debentures or for the execution of any trust or power hereunder or for the appointment of a liquidator or receiver or for a receiving order under the *Bankruptcy and Insolvency Act* (Canada) or to have the Corporation wound up or to file or prove a claim in any liquidation or bankruptcy proceeding or for any other remedy hereunder, unless: (a) such holder shall previously have given to the Debenture Trustee written notice of the happening of an Event of Default hereunder; and (b) the Debentureholders by Extraordinary Resolution or by written instrument signed by the holders of at least 25% in principal amount of the Debentures then outstanding shall have made a request to the Debenture Trustee and the Debenture Trustee shall have been afforded reasonable opportunity either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its name for such purpose; and (c) the Debentureholders or any of them shall have furnished to the Debenture Trustee, when so requested by the Debenture Trustee, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (d) the Debenture Trustee shall have failed to act within a reasonable time after such notification, request and offer of indemnity and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Debenture Trustee, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of any Debentures.

8.6 Application of Monies by Debenture Trustee

- (a) Except as herein otherwise expressly provided, any monies received by the Debenture Trustee from the Corporation pursuant to the foregoing provisions of this Article 8, or as a result of legal or other proceedings or from any trustee in bankruptcy or liquidator of

the Corporation, shall be applied, together with any other monies in the hands of the Debenture Trustee available for such purpose, as follows:

- (i) first, in payment or in reimbursement to the Debenture Trustee of its compensation, costs, charges, expenses, borrowings, advances or other monies furnished or provided by or at the instance of the Debenture Trustee in or about the execution of its trusts under, or otherwise in relation to, this Indenture, with interest thereon as herein provided;
- (ii) second, but subject as hereinafter in this Section 8.6 provided, in payment, rateably and proportionately to (and in the case of applicable withholding taxes, if any, on behalf of) the holders of Debentures, of the principal of and premium (if any) and accrued and unpaid interest and interest on amounts in default on the Debentures which shall then be outstanding in the priority of principal first and then premium and then accrued and unpaid interest and interest on amounts in default unless otherwise directed by Extraordinary Resolution and in that case in such order or priority as between principal, premium (if any) and interest as may be directed by such resolution; and
- (iii) third, in payment of the surplus, if any, of such monies to the Corporation or its assigns;

provided, however, that no payment shall be made pursuant to clause (ii) above in respect of the principal, premium or interest on any Debenture held, directly or indirectly, by or for the benefit of the Corporation or any Subsidiary (other than any Debenture pledged for value and in good faith to a person other than the Corporation or any Subsidiary but only to the extent of such person's interest therein) except subject to the prior payment in full of the principal, premium (if any) and interest (if any) on all Debentures which are not so held.

- (b) The Debenture Trustee shall not be bound to apply or make any partial or interim payment of any monies coming into its hands if the amount so received by it, after reserving thereout such amount as the Debenture Trustee may think necessary to provide for the payments mentioned in Section 8.6(a), is insufficient to make a distribution of at least 2% of the aggregate principal amount of the outstanding Debentures, but it may retain the money so received by it and invest or deposit the same as provided in Section 15.9 until the money or the investments representing the same, with the income derived therefrom, together with any other monies for the time being under its control shall be sufficient for the said purpose or until it shall consider it advisable to apply the same in the manner hereinbefore set forth. The foregoing shall, however, not apply to a final payment in distribution hereunder.

8.7 Notice of Payment by Debenture Trustee

Not less than 15 days notice shall be given in the manner provided in Section 14.2 by the Debenture Trustee to the Debentureholders of any payment to be made under this Article 8. Such notice shall state the time when and place where such payment is to be made and also the liability under this Indenture to which it is to be applied. After the day so fixed, unless payment shall have been duly demanded and have been refused, the Debentureholders will be entitled to interest only on the balance (if any) of the principal monies, premium (if any) and interest due (if any) to them, respectively, on the Debentures, after deduction of the respective amounts payable in respect thereof on the day so fixed.

8.8 Debenture Trustee May Demand Production of Debentures

The Debenture Trustee shall have the right to demand production of the Debentures in respect of which any payment of principal, interest or premium required by this Article 8 is made and may cause to be endorsed on the same a memorandum of the amount so paid and the date of payment, but the Debenture Trustee may, in its discretion, dispense with such production and endorsement, upon such indemnity being given to it and to the Corporation as the Debenture Trustee shall deem sufficient.

8.9 Remedies Cumulative

No remedy herein conferred upon or reserved to the Debenture Trustee, or upon or to the holders of Debentures is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now existing or hereafter to exist by law or by statute.

8.10 Judgment Against the Corporation

The Corporation covenants and agrees with the Debenture Trustee that, in case of any judicial or other proceedings to enforce the rights of the Debentureholders, judgment may be rendered against it in favour of the Debentureholders or in favour of the Debenture Trustee, as trustee for the Debentureholders, for any amount which may remain due in respect of the Debentures and premium (if any) and the interest thereon and any other monies owing hereunder.

8.11 Immunity of Directors and Others

The Debentureholders and the Debenture Trustee hereby waive and release any right, cause of action or remedy now or hereafter existing in any jurisdiction against any past, present or future Directors or officers or agents of the Corporation, except for instances of gross negligence or wilful misconduct, or holder of Shares of the Corporation or of any successor for the payment of the principal of or premium or interest on any of the Debentures or on any covenant, agreement, representation or warranty by the Corporation herein or in the Debentures contained.

ARTICLE 9 SATISFACTION AND DISCHARGE

9.1 Cancellation and Destruction

All Debentures shall forthwith after payment thereof, whether on the Maturity Date, Redemption Date, the date of a Change of Control or on any other payment date, be delivered to the Debenture Trustee and cancelled by it. All Debentures cancelled or required to be cancelled under this or any other provision of this Indenture shall be destroyed by the Debenture Trustee and, if required by the Corporation, the Debenture Trustee shall furnish to it a destruction certificate setting out the designating numbers of the Debentures so destroyed.

9.2 Non-Presentation of Debentures

In case the holder of any Debenture shall fail to present the same for payment on the date on which the principal, premium (if any) or the interest thereon or represented thereby becomes payable either at maturity or otherwise or shall not accept payment on account thereof and give such receipt therefor, if any, as the Debenture Trustee may require:

- (a) the Corporation shall be entitled to pay or deliver to the Debenture Trustee and direct it to set aside; or
- (b) in respect of monies or Shares in the hands of the Debenture Trustee which may or should be applied to the payment of the Debentures, the Corporation shall be entitled to direct the Debenture Trustee to set aside; or
- (c) if the redemption was pursuant to notice given by the Debenture Trustee, the Debenture Trustee may itself set aside;

the principal, premium (if any) or the interest, as the case may be, in trust to be paid to the holder of such Debenture upon due presentation or surrender thereof in accordance with the provisions of this Indenture; and thereupon the principal, premium (if any) or the interest payable on or represented by each Debenture in respect whereof such monies or Shares, if applicable, have been set aside shall be deemed to have been paid and the holder thereof shall thereafter have no right in respect thereof except that of receiving delivery and payment of the monies or Shares, if applicable (less applicable withholding taxes, if any), so set aside by the Debenture Trustee upon due presentation and surrender thereof.

9.3 Repayment of Unclaimed Monies or Shares

Subject to applicable law, any monies or Shares, if applicable, set aside under Section 9.2 and not claimed by and paid to holders of Debentures as provided in Section 9.2 within six years after the date of such setting aside shall be repaid and delivered to the Corporation by the Debenture Trustee and thereupon the Debenture Trustee shall be released from all further liability with respect to such monies or Shares, if applicable, and thereafter the holders of the Debentures in respect of which such monies or Shares, if applicable, were so repaid to the Corporation shall have no rights in respect thereof except to obtain payment and delivery of the monies or Shares, if applicable, from the Corporation subject to any limitation provided by the laws of the Province of British Columbia. Notwithstanding the foregoing, the Debenture Trustee will pay any remaining funds prior to the expiry of six years after the setting aside described in Section 9.2 to the Corporation upon receipt from the Corporation, or one of its Subsidiaries (on behalf of the Corporation), of an uncontested letter of credit from a Canadian chartered bank in an amount equal to or in excess of the amount of the remaining funds. If the remaining funds are paid to the Corporation prior to the expiry of six years after such setting aside, the Corporation shall reimburse the Debenture Trustee for any amounts so set aside which are required to be paid by the Debenture Trustee to a holder of a Debenture after the date of such payment of the remaining funds to the Corporation but prior to six years after such setting aside.

9.4 Discharge

The Debenture Trustee shall at the written request of the Corporation release and discharge this Indenture and execute and deliver such instruments as it shall be advised by Counsel are requisite for that purpose and to release the Corporation from its covenants herein contained (other than the provisions relating to the indemnification of the Debenture Trustee), upon proof being given to the reasonable satisfaction of the Debenture Trustee that the principal and premium (if any) of and interest (including interest on amounts in default, if any), on all the Debentures and all other monies payable hereunder have been paid or satisfied or that all the Debentures having matured or having been duly called for redemption, payment of the principal of and interest (including interest on amounts in default, if any) on such Debentures and of all other monies payable hereunder has been duly and effectually provided for in accordance with the provisions hereof.

Satisfaction

(a) The Corporation shall be deemed to have fully paid, satisfied and discharged all of the outstanding Debentures of any series and the Debenture Trustee, at the expense of the Corporation, shall execute and deliver proper instruments acknowledging the full payment, satisfaction and discharge of such Debentures, when, with respect to all of the outstanding Debentures or all of the outstanding Debentures of any series, as applicable, either:

(i) the Corporation has deposited or caused to be deposited with the Debenture Trustee as trust funds or property in trust for the purpose of making payment on such Debentures, an amount in money or Shares, if applicable, sufficient to pay, satisfy and discharge the entire amount of principal, premium, if any, and interest, if any, to maturity or any repayment date or Redemption Dates, as the case may be, of such Debentures; or

(ii) the Corporation has deposited or caused to be deposited with the Debenture Trustee as trust property in trust for the purpose of making payment on such Debentures:

(A) if the Debentures are issued in Canadian dollars, such amount in Canadian dollars of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of Canada or Shares, if applicable; or

(B) if the Debentures are issued in a currency or currency unit other than Canadian dollars, cash in the currency or currency unit in which the Debentures are payable and/or such amount in such currency or currency unit of direct obligations of, or obligations the principal and interest of which are guaranteed by, the Government of Canada or the government that issued the currency or currency unit in which the Debentures are payable or Shares, if applicable;

as will, together with the income to accrue thereon and reinvestment thereof, be sufficient to pay and discharge the entire amount of principal and accrued and unpaid interest to maturity or any repayment date, as the case may be, of all such Debentures;

and in either event:

(iii) the Corporation has paid, caused to be paid or made provisions to the satisfaction of the Debenture Trustee for the payment of all other sums payable with respect to all of such Debentures (together with all applicable expenses of the Debenture Trustee in connection with the payment of such Debentures); and

(iv) the Corporation has delivered to the Debenture Trustee a Certificate of the Corporation stating that all conditions precedent herein provided relating to the payment, satisfaction and discharge of all such Debentures have been complied with.

Any deposits with the Debenture Trustee referred to in this Section 9.5 shall be irrevocable, subject to Section 9.6, and shall be made under the terms of an escrow and/or trust agreement in form and substance satisfactory to the Debenture Trustee and which provides for the due and punctual payment of the principal of, and interest and premium, if any, on the Debentures being satisfied.

- (b) Upon the satisfaction of the conditions set forth in this Section 9.5 with respect to all the outstanding Debentures, or all the outstanding Debentures of any series, as applicable, the terms and conditions of the Debentures, including the terms and conditions with respect thereto set forth in this Indenture (other than those contained in Article 2 and Article 4 and the provisions of Article 1 pertaining to the foregoing provisions) shall no longer be binding upon or applicable to the Corporation.
- (c) Any funds or obligations deposited with the Debenture Trustee pursuant to this Section 9.5 shall be denominated in the currency or denomination of the Debentures in respect of which such deposit is made.
- (d) If the Debenture Trustee is unable to apply any money or securities in accordance with this Section 9.5 by reason of any legal proceeding or any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Corporation's obligations under this Indenture and the affected Debentures shall be revived and reinstated as though no money or securities had been deposited pursuant to this Section 9.5 until such time as the Debenture Trustee is permitted to apply all such money or securities in accordance with this Section 9.5, provided that if the Corporation has made any payment in respect of principal, premium or interest on Debentures or, as applicable, other amounts because of the reinstatement of its obligations, the Corporation shall be subrogated to the rights of the holders of such Debentures to receive such payment from the money or securities held by the Debenture Trustee.

9.6 Continuance of Rights, Duties and Obligations

Where trust funds or trust property have been deposited pursuant to Section 9.5, the holders of Debentures and the Corporation shall continue to have and be subject to their respective rights, duties and obligations under Article 2 and Article 4.

ARTICLE 10 SHARE INTEREST PAYMENT ELECTION

10.1 Share Interest Payment Election

- (a) Provided that the Corporation is not in default under this Indenture and that all applicable regulatory approvals have been obtained (including any required approval of any stock exchange on which the Debentures or Shares are then listed), the Corporation shall have the right, from time to time, to make a Share Interest Payment Election in respect of any Interest Obligation by delivering a Share Interest Payment Election Notice to the Debenture Trustee no later than the date required by applicable law or the rules of any stock exchange on which the Debentures or Shares are then listed.
- (b) Upon receipt of a Share Interest Payment Election Notice, the Debenture Trustee shall, as agent of the Corporation, in accordance with this Article 10 and such Share Interest

Payment Election Notice, deliver Share Bid Requests to the investment banks, brokers or dealers designated by the Corporation, in the Corporation's absolute discretion, in the Share Interest Payment Election Notice. In connection with the Share Interest Payment Election, the Debenture Trustee shall have the power to: (i) accept delivery of the Shares from the Corporation and deal with the Shares in accordance with the Share Interest Payment Election Notice and this Article 10; (ii) agree to the Corporation establishing an account or accounts (in the name of the Debenture Trustee, if necessary) with a broker identified by the Corporation, in its absolute discretion, in the Share Interest Payment Election Notice for the purpose of such broker selling Shares on behalf of the Corporation in accordance with the terms hereof (which broker shall notify the Corporation and the Debenture Trustee as Shares are sold and the settlement rules prescribed by securities regulatory policies shall apply in respect of the payment for such Shares). The broker shall send copies of the monthly statements and transaction slips in respect of all sales of Shares to the Corporation (with a duplicate copy to the Debenture Trustee, or as it may otherwise in writing direct), as soon as reasonably practicable after preparation thereof. All fees payable in respect of such accounts shall be paid by the Corporation; provided, however, that it shall be a condition precedent to the Corporation establishing such an account with one or more brokers that all necessary legal, regulatory and other requirements have been satisfied by the Corporation and the Debenture Trustee, if applicable, and the Corporation shall assume, to the maximum extent permitted herein and at law, all responsibility for administering such account(s); (iii) accept bids with respect to, and consummate sales of, such Shares through the investment banks, brokers or dealers designated by the Corporation in the Share Interest Payment Election Notice, each as the Corporation shall direct in its absolute discretion; (iv) invest the proceeds of such sales on the direction of the Corporation in Government Obligations which mature prior to an applicable Interest Payment Date and use such proceeds to pay the Interest Obligation in respect of which the Share Interest Payment Election was made; and (v) perform any other action necessarily incidental thereto as directed by the Corporation in its absolute discretion. The Share Interest Payment Election Notice shall direct the Debenture Trustee to solicit and accept only, and each Share Bid Request shall provide that the acceptance of any bid is conditional on the acceptance of, sufficient bids to result in aggregate proceeds from such issue and sale of Shares which, together with the cash payments by the Corporation in lieu of fractional Shares, if any, equals the aggregate amount of the Interest Obligation on the Share Delivery Date.

- (c) Each Share Bid Request shall provide for, and all bids shall be subject to, the right of the Corporation, by delivering written notice to the Debenture Trustee at any time prior to the consummation of such delivery and sale of the Shares on the Share Delivery Date, to withdraw the Share Interest Payment Election (which shall have the effect of withdrawing each related Share Bid Request and terminating any Share Purchase Agreement), whereupon the Corporation shall be obliged to pay in cash the Interest Obligation in respect of which the Share Interest Payment Election Notice has been delivered.
- (d) Any sale of Shares pursuant to this Article 10 may be made to one or more Persons whose bids are solicited, but all such sales with respect to a particular Share Interest Payment Election shall take place concurrently on the Share Delivery Date.
- (e) The amount received by a holder of a Debenture in respect of the Interest Obligation or the entitlement thereto will not be affected by whether or not the Corporation elects to satisfy the Interest Obligation pursuant to a Share Interest Payment Election.

- (f) The Debenture Trustee shall inform the Corporation promptly following receipt of any bid or bids for Shares solicited pursuant to the Share Bid Requests. The Debenture Trustee shall accept such bid or bids as the Corporation, in its absolute discretion, shall direct by Written Direction of the Corporation, provided that the aggregate proceeds of all sales of Shares resulting from the acceptance of such bids, together with the amount of any cash payment by the Corporation in lieu of any fractional Shares, on the Share Delivery Date, must be equal to the related Share Interest Payment Election Amount in connection with any bids so accepted, the Corporation, the Debenture Trustee (if required by the Corporation in its absolute discretion) and the applicable bidders shall, not later than the Share Delivery Date, enter into Share Purchase Agreements and shall comply with all Applicable Securities Legislation, including the securities rules and regulations of any stock exchange on which the Debentures or Shares are then listed. The Corporation shall pay all fees and expenses in connection with the Share Purchase Agreements including the fees and commissions charged by the investment banks, brokers and dealers and the reasonable fees of the Debenture Trustee.
- (g) Provided that: (i) all conditions specified in each Share Purchase Agreement to the closing of all sales thereunder have been satisfied, other than the delivery of the Shares to be sold thereunder against payment of the purchase price thereof; and (ii) the purchasers under each Share Purchase Agreement shall be ready, willing and able to perform thereunder, in each case on the Share Delivery Date, the Corporation shall, on the Share Delivery Date, deliver to the Debenture Trustee the Shares to be sold on such date, an amount in cash equal to the value of any fractional Shares and a Certificate of the Corporation to the effect that all conditions precedent to such sales, including those set forth in this Indenture and in each Share Purchase Agreement, have been satisfied. Upon such deliveries, the Debenture Trustee shall consummate such sales on such Share Delivery Date by the delivery of the Shares to such purchasers against payment to the Debenture Trustee in immediately available funds of the purchase price therefor in an aggregate amount equal to the Share Interest Payment Election Amount (less any amount attributable to any fractional Shares), whereupon the sole right of a holder of Debentures to receive such holder's portion of the Share Interest Payment Election Amount will be to receive same from the Debenture Trustee out of the proceeds of such sales of Shares plus any amount received by the Debenture Trustee from the Corporation attributable to any fractional Shares in full satisfaction of the Interest Obligation and the holder will have no further recourse to the Corporation in respect of the Interest Obligation.
- (h) The Debenture Trustee shall, on the Share Delivery Date, use the sale proceeds of the Shares (together with any cash received from the Corporation in lieu of any fractional Shares) to purchase, on the direction of the Corporation in writing, Government Obligations which mature prior to the applicable Interest Payment Date and which the Debenture Trustee is required to hold until maturity (the "**Share Proceeds Investment**") and shall, on such date, deposit the balance, if any, of such sale proceeds in an account established by the Corporation (and which shall be maintained by and subject to the control of the Debenture Trustee) (the "**Interest Account**") for such Debentures. The Debenture Trustee shall hold such Share Proceeds Investment (but not income earned thereon) under its exclusive control in an irrevocable trust for the benefit of the holders of the Debentures. At least one Business Day prior to the Interest Payment Date, the Debenture Trustee shall deposit amounts from the proceeds of the Share Proceeds Investment in the Interest Account to bring the balance of the Interest Account to the Share Interest Payment Election Amount. On the Interest Payment Date, the Debenture Trustee shall pay the funds held in the Interest Account to the holders of record of the

Debentures on the Interest Payment Date (less any tax required to be deducted, if any) and, provided that there is no Event of Default, shall remit amounts, if any, in respect of income earned on the Share Proceeds Investment or otherwise in excess of the Share Interest Payment Election Amount to the Corporation.

- (i) Neither the making of a Share Payment Election nor the consummation of sales of Shares on a Share Delivery Date shall (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the Interest Obligation payable on such date or (ii) entitle such holders to receive any Shares in satisfaction of such Interest Obligation.
- (j) No fractional Shares will be issued in satisfaction of interest but in lieu thereof the Corporation will satisfy such fractional interest by a cash payment equal to the market price of such fractional interest.
- (k) Notwithstanding any other provision of this Article 10, the Debenture Trustee shall not be required to take any action pursuant to this Article 10 if such action would not be in compliance with Applicable Securities Legislation and the rules and regulations of any stock exchange on which the Debentures or Shares are then listed.

ARTICLE 11 SUCCESSORS

11.1 Restrictions on Amalgamation, Merger and Sale of Certain Assets, etc.

Subject to the provisions of Article 12, the Corporation shall not enter into any transaction or series of transactions whereby all or substantially all of its undertaking, property or assets would become the property of any other Person (herein called a "Successor") whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- (a) prior to or contemporaneously with the consummation of such transaction the Corporation and the Successor shall have executed such instruments and done such things as, in the opinion of Counsel, are necessary or advisable to establish that upon the consummation of such transaction:
 - (i) the Successor will have assumed all the covenants and obligations of the Corporation under this Indenture, the Debentures and any other agreement in connection with this Indenture, including, but not limited to, assuming the obligation to make due and punctual payment of all amounts with respect to the Debentures;
 - (ii) the Debentures will be valid, binding and continuing obligations of the Successor entitling the holders thereof, as against the Successor, to all the rights and remedies of Debentureholders under this Indenture; and
 - (iii) in the case of an entity organized otherwise than under the laws of the Province of British Columbia, the Successor shall attorn to the jurisdiction of the courts of the Province of British Columbia;

- (b) such transaction, in the opinion of Counsel of the Corporation, shall be on such terms as to substantially preserve and not impair any of the rights and powers of the Debenture Trustee or of the Debentureholders hereunder; and
- (c) no condition or event shall exist as to the Corporation (at the time of such transaction) or the Successor (immediately after such transaction) and after giving full effect thereto or immediately after the Successor shall become liable to pay the principal monies, premium, if any, interest and other monies due or which may become due hereunder, which constitutes or would constitute an Event of Default hereunder.

11.2 Vesting of Powers in Successor

Whenever the conditions of Section 11.1 shall have been duly observed and performed, any Successor formed by or resulting from such transaction shall succeed to, and be substituted for, and may exercise every right and power of the Corporation under this Indenture with the same effect as though the Successor had been named as the Corporation herein and thereafter, except in the case of a lease or other similar disposition of property to the Successor, the Corporation shall be relieved of all obligations and covenants under this Indenture and the Debentures forthwith upon the Corporation delivering to the Debenture Trustee an opinion of Counsel to the effect that the transaction shall not result in any material adverse tax consequences to the Corporation or the Successor. The Debenture Trustee will, at the expense of the Successor, execute any documents which it may be advised by Counsel are necessary or advisable for effecting or evidencing such release and discharge.

ARTICLE 12 COMPULSORY ACQUISITION

12.1 Definitions In this Article:

- (a) **"Debenture Offer"** means an offer to acquire outstanding Debentures where, as of the date of the offer to acquire, the Debentures that are subject to the offer to acquire, together with the Debenture Offeror's Debentures, constitute in the aggregate 20% or more of the outstanding principal amount of the Debentures;
- (b) **"Debenture Offeror"** means a Person, or two or more Persons acting jointly or in concert, who make a Debenture Offer to acquire Debentures;
- (c) **"Debenture Offeror's Debentures"** means Debentures beneficially owned, or over which control or direction is exercised, on the date of a Debenture Offer by the Debenture Offeror, any Affiliate or Associate of the Debenture Offeror or any person or company acting jointly or in concert with the Debenture Offeror.
- (d) **"Debenture Offeror's Notice"** means the notice described in Section 12.3; and
- (e) **"Dissenting Debentureholders"** means a Debentureholder who does not accept a Debenture Offer referred to in Section 12.2 and includes any assignee of the Debenture of a Debentureholder to whom such a Debenture Offer is made, whether or not such assignee is recognized under this Indenture;
- (f) **"offer to acquire"** includes an acceptance of an offer to sell;

12.2 Debenture Offer for Debentures

If a Debenture Offer for all of the outstanding Debentures (other than Debentures held by or on behalf of the Debenture Offeror or an Affiliate or Associate of the Debenture Offeror) is made and:

- (a) within the time provided in the Debenture Offer for its acceptance or within 45 days after the date the Debenture Offer is made, whichever period is the shorter, the Debenture Offer is accepted by Debentureholders representing at least 90% of the outstanding principal amount of the Debentures, other than the Debenture Offeror's Debentures;
- (b) the Debenture Offeror is bound to take up and pay for, or has taken up and paid for the Debentures of the Debentureholders who accepted the Debenture Offer; and
- (c) the Debenture Offeror complies with Sections 12.3 and 12.5;

the Debenture Offeror is entitled to acquire, and the Dissenting Debentureholders are required to sell to the Debenture Offeror, the Debentures held by the Dissenting Debentureholder for the same consideration per Debenture payable or paid, as the case may be, under the Debenture Offer.

12.3 Debenture Offeror's Notice to Dissenting Shareholders

Where a Debenture Offeror is entitled to acquire Debentures held by Dissenting Debentureholders pursuant to Section 12.2 and the Debenture Offeror wishes to exercise such right, the Debenture Offeror shall send by registered mail within 30 days after the date of termination of the Debenture Offer a notice (the "Debenture Offeror's Notice") to each Dissenting Debentureholder stating that:

- (a) Debentureholders holding at least 90% of the principal amount of all outstanding Debentures, other than Debenture Offeror's Debentures, have accepted the Debenture Offer;
- (b) the Debenture Offeror is bound to take up and pay for, or has taken up and paid for, the Debentures of the Debentureholders who accepted the Debenture Offer;
- (c) Dissenting Debentureholders must transfer their respective Debentures to the Debenture Offeror on the terms on which the Debenture Offeror acquired the Debentures of the Debentureholders who accepted the Debenture Offer within 21 days after the date of the sending of the Debenture Offeror's Notice; and
- (d) Dissenting Debentureholders must send their respective Debenture certificate(s) to the Debenture Trustee within 21 days after the date of the sending of the Debenture Offeror's Notice.

12.4 Delivery of Debenture Certificates

A Dissenting Debentureholder to whom a Debenture Offeror's Notice is sent pursuant to Section 12.3 shall, within 21 days after the sending of the Debenture Offeror's Notice, send his or her Debenture certificate(s) to the Debenture Trustee duly endorsed for transfer.

12.5 Debenture Offeror's Notice to the Corporation

Concurrently with sending the Debenture Offer's Notice under Section 12.3, the Debenture Offeror (if other than the Corporation) shall send to the Corporation a notice of adverse claim disclosing the name and address of the Debenture Offeror and the name of each of the Dissenting Debentureholders.

12.6 Payment of Consideration to Debenture Trustee

Within 21 days after the Debenture Offeror sends a Debenture Offeror's Notice pursuant to Section 12.3, the Debenture Offeror shall pay or transfer to the Debenture Trustee, or to such other person as the Debenture Trustee may direct, the cash or other consideration that is payable to Dissenting Debentureholders pursuant to Section 12.2. The acquisition by the Debenture Offeror of all Debentures held by all Dissenting Debentureholders shall be effective as of the time of such payment or transfer.

12.7 Consideration to be held in Trust

The Debenture Trustee, or the person directed by the Debenture Trustee, shall hold in trust for the Dissenting Debentureholders the cash or other consideration they or it receives under Section 12.6. The Debenture Trustee, or such persons, shall deposit cash in a separate account in a Canadian chartered bank, or other body corporate, which may include an Affiliate of the Debenture Trustee, any of whose deposits are insured by the Canada Deposit Insurance Corporation, and shall place other consideration in the custody of a Canadian chartered bank or such other body corporate.

12.8 Completion of Transfer of Debentures to Debenture Offeror

Within 30 days after the date of the sending of a Debenture Offeror's Notice pursuant to Section 12.3, the Debenture Trustee, if the Debenture Offeror has complied with Section 12.6, shall:

- (a) do all acts and things and execute and cause to be executed all instruments as in the Debenture Trustee's opinion may be necessary or desirable to cause the transfer of the Debentures of the Dissenting Debentureholders to the Debenture Offeror;
- (b) send to each Dissenting Debentureholder who has complied with Section 12.4 the consideration to which such Dissenting Debentureholder is entitled under this Article 12 net of applicable withholding taxes, if any; and
- (c) send to each Dissenting Debentureholder who has not complied with Section 12.4 a notice stating that:
 - (i) his or her Debentures have been transferred to the Debenture Offeror;
 - (ii) the Debenture Trustee or some other person designated in such notice are holding in trust the consideration for such Debentures; and
 - (iii) the Debenture Trustee, or such other Person, will send the consideration to such Dissenting Debentureholder as soon as possible after receiving such Dissenting Debentureholder's Debenture certificate(s) or such other documents as the Debenture Trustee or such other Person may require in lieu thereof;

and the Debenture Trustee is hereby appointed the agent and attorney, and is granted power of attorney with respect to the Debentures, of the Dissenting Debentureholders for the purposes of giving effect to the foregoing provisions, including, without limitation, the power and authority to execute such transfers as may be necessary or desirable in respect of the book-entry only registration system of the Depository.

12.9 Obligation to Acquire Debentures

(a) If a Debenture Offeror (other than the Corporation) becomes entitled to acquire the Debentures of Dissenting Debentureholders pursuant to Section 12.2 and a Dissenting Debentureholder does not receive a Debenture Offeror's Notice in accordance with Section 12.3, such Dissenting Debentureholder may:

- (i) Within 90 calendar days after the date of termination of the Debenture Offer; or
- (ii) If such Dissenting Debentureholder did not receive a Debenture Offer, within 90 calendar days after the later of:
 - (A) the date of termination of the Debenture Offer; or
 - (B) the date on which such Dissenting Debentureholder learned of the Debenture Offer,

require the Debenture Offeror to acquire their Debentures.

(b) If a Dissenting Debentureholder requires a Debenture Offeror (other than the Corporation) to acquire its Debentures under Section 12.9(a), the Debenture Offeror shall acquire such Debentures on the same terms on which the Debenture Offeror acquired Debentures of the applicable series from Debentureholders who accepted the Debenture Offer.

12.10 Communication of Debenture Offer to Corporation

A Debenture Offeror cannot make a Debenture Offer for Debentures unless, concurrent with the communication of the Debenture Offer to any Debentureholder, a copy of the Debenture Offer is provided to the Corporation.

ARTICLE 13 MEETINGS OF DEBENTUREHOLDERS

13.1 Right to Convene Meeting

The Debenture Trustee or the Corporation may at any time and from time to time, and the Debenture Trustee shall, on receipt of a written request of the Corporation or a written request signed by the holders of not less than 25% of the principal amount of the Debentures then outstanding and upon receiving funding and being indemnified to its reasonable satisfaction by the Corporation or by the Debentureholders signing such request against the costs which may be incurred in connection with the calling and holding of such meeting, convene a meeting of the Debentureholders. In the event of the Debenture Trustee failing, within 30 days after receipt of any such request and such funding of indemnity, to give notice convening a meeting, the Corporation or such Debentureholders, as the case may be, may convene such meeting. Every such meeting shall be held in the City of Vancouver or at such other place as may be approved or determined by the Debenture Trustee.

13.2

Notice of Meetings

- (a) At least 21 days notice and not more than 60 days notice of any meeting shall be given to the Debentureholders in the manner provided in Section 14.2 and a copy of such notice shall be sent by post to the Debenture Trustee, unless the meeting has been called by it. Such notice shall state the time when and the place where the meeting is to be held and shall state briefly the general nature of the business to be transacted thereat and it shall not be necessary for any such notice to set out the terms of any resolution to be proposed or any of the provisions of this Article 13. The accidental omission to give notice of a meeting to any holder of Debentures shall not invalidate any resolution passed at any such meeting. A holder may waive notice of a meeting either before or after the meeting.
- (b) If the business to be transacted at any meeting by Extraordinary Resolution or otherwise, or any action to be taken or power exercised by instrument in writing under Section 13.15, especially affects the rights of holders of Debentures of one or more series in a manner or to an extent differing in any material way from that in or to which the rights of holders of Debentures of any other series are affected (determined as provided in Sections 13.2(c) and (d)), then:
 - (i) a reference to such fact, indicating each series of Debentures in the opinion of the Debenture Trustee so especially affected (hereinafter referred to as the "especially affected series") shall be made in the notice of such meeting, and in any such case the meeting shall be and be deemed to be and is herein referred to as a "Serial Meeting"; and
 - (ii) the holders of Debentures of an especially affected series shall not be bound by any action taken at a Serial Meeting or by instrument in writing under Section 13.15 unless in addition to compliance with the other provisions of this Article 13:
 - (A) at such Serial Meeting: (I) there are Debentureholders present in person or by proxy and representing at least 25% in principal amount of the Debentures then outstanding of such series, subject to the provisions of this Article 13 as to quorum at adjourned meetings; and (II) the resolution is passed by the affirmative vote of the holders of more than 50% (or in the case of an Extraordinary Resolution not less than 66 2/3%) of the principal amount of the Debentures of such series then outstanding voted on the resolution; or
 - (B) in the case of action taken or power exercised by instrument in writing under Section 13.15, such instrument is signed in one or more counterparts by the holders of not less than 66 2/3% in principal amount of the Debentures of such series then outstanding.
- (c) Subject to Section 13.2(d), the determination as to whether any business to be transacted at a meeting of Debentureholders, or any action to be taken or power to be exercised by instrument in writing under Section 13.15, especially affects the rights of the Debentureholders of one or more series in a manner or to an extent differing in any material way from that in or to which it affects the rights of Debentureholders of any other series (and is therefore an especially affected series) shall be determined by an

opinion of Counsel, which shall be binding on all Debentureholders, the Debenture Trustee and the Corporation for all purposes hereof.

(d) A proposal:

- (i) to extend the Maturity Date of Debentures of any particular series or to reduce the principal amount thereof, the rate of interest or redemption premium thereon or to impair any conversion right thereof;
- (ii) to modify or terminate any covenant or agreement which by its terms is effective only so long as Debentures of a particular series are outstanding; or
- (iii) to reduce with respect to Debentureholders of any particular series any percentage stated in this Section 13.2 or Sections 13.4, 13.12 and 13.15;

shall be deemed to especially affect the rights of the Debentureholders of such series in a manner differing in a material way from that in which it affects the rights of holders of Debentures of any other series, whether or not a similar extension, reduction, modification or termination is proposed with respect to Debentures of any or all other series.

13.3 Chairman

Some individual, who need not be a Debentureholder, nominated in writing by the Debenture Trustee shall be chairman of the meeting and if no person is so nominated, or if the person so nominated is not present within 15 minutes from the time fixed for the holding of the meeting, a majority of the Debentureholders present in person or by proxy shall choose some individual present to be chairman.

13.4 Quorum

Subject to the provisions of Section 13.12, at any meeting of the Debentureholders a quorum shall consist of one or more Debentureholders present in person or by proxy and representing at least 25% in principal amount of the outstanding Debentures and, if the meeting is a Serial Meeting, at least 25% of the Debentures then outstanding of each especially affected series. If a quorum of the Debentureholders shall not be present within 30 minutes from the time fixed for holding any meeting, the meeting, if summoned by the Debentureholders or pursuant to a request of the Debentureholders, shall be dissolved, but in any other case the meeting shall be adjourned to the same day in the next week (unless such day is not a Business Day in which case it shall be adjourned to the next following Business Day thereafter) at the same time and place and no notice shall be required to be given in respect of such adjourned meeting. At the adjourned meeting, the Debentureholders present in person or by proxy shall, subject to the provisions of Section 13.12, constitute a quorum and may transact the business for which the meeting was originally convened notwithstanding that they may not represent 25% of the principal amount of the outstanding Debentures or of the Debentures then outstanding of each especially affected series. Any business may be brought before or dealt with at an adjourned meeting which might have been brought before or dealt with at the original meeting in accordance with the notice calling the same. No business shall be transacted at any meeting unless the required quorum be present at the commencement of business.

13.5 Power to Adjourn

The chairman of any meeting at which a quorum of the Debentureholders is present may, with the consent of the holders of a majority in principal amount of the Debentures represented thereat, adjourn any such meeting and no notice of such adjournment need be given except such notice, if any, as the meeting may prescribe.

13.6 Show of Hands

Every question submitted to a meeting shall, subject to Section 13.7, be decided in the first place by a majority of the votes given on a show of hands except that votes on Extraordinary Resolutions shall be given in the manner hereinafter provided. At any such meeting, unless a poll is duly demanded as herein provided, a declaration by the chairman that a resolution has been carried or carried unanimously or by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact. The chairman of any meeting shall be entitled, both on a show of hands and on a poll, to vote in respect of the Debentures, if any, held by him.

13.7 Poll

On every Extraordinary Resolution, and on any other question submitted to a meeting when demanded by the chairman or by one or more Debentureholders or proxies for Debentureholders, a poll shall be taken in such manner and either at once or after an adjournment as the chairman shall direct. Questions other than Extraordinary Resolutions shall, if a poll be taken, be decided by the votes of the holders of a majority in principal amount of the Debentures and of each especially affected series, if applicable, represented at the meeting and voted on the poll.

13.8 Voting

On a show of hands every person who is present and entitled to vote, whether as a Debentureholder or as proxy for one or more Debentureholders or both, shall have one vote. On a poll each Debentureholder present in person or represented by a proxy duly appointed by an instrument in writing shall be entitled to one vote in respect of each \$1,000 principal amount of Debentures of which he shall then be the holder. In the case of any Debenture denominated in a currency or currency unit other than Canadian dollars, the principal amount thereof for these purposes shall be computed by the Corporation in Canadian dollars on the basis of the conversion of the principal amount thereof at the applicable spot buying rate of exchange for such other currency or currency unit as reported by the Bank of Canada at the close of business on the Business Day next preceding the meeting. Any fractional amounts resulting from such conversion shall be rounded to the nearest \$100. A proxy need not be a Debentureholder. In the case of joint holders of a Debenture, any one of them present in person or by proxy at the meeting may vote in the absence of the other or others but in case more than one of them be present in person or by proxy, they shall vote together in respect of the Debentures of which they are joint holders.

13.9 Proxies

A Debentureholder may be present and vote at any meeting of Debentureholders by an authorized representative. The Corporation (in case it convenes the meeting) or the Debenture Trustee (in any other case) for the purpose of enabling the Debentureholders to be present and vote at any meeting without producing their Debentures, and of enabling them to be present and vote at any such meeting by proxy and of lodging instruments appointing such proxies at some place other than the place where the

meeting is to be held, may from time to time make and vary such regulations as it shall think fit providing for and governing any or all of the following matters:

- (a) the form of the instrument appointing a proxy, which shall be in writing, and the manner in which the same shall be executed and the production of the authority of any person signing on behalf of a Debentureholder;
- (b) the deposit of instruments appointing proxies at such place as the Debenture Trustee, the Corporation or the Debentureholder convening the meeting, as the case may be, may, in the notice convening the meeting, direct and the time, if any, before the holding of the meeting or any adjournment thereof by which the same must be deposited; and
- (c) the deposit of instruments appointing proxies at some approved place or places other than the place at which the meeting is to be held and enabling particulars of such instruments appointing proxies to be mailed, faxed or sent by other electronic means before the meeting to the Corporation or to the Debenture Trustee at the place where the same is to be held and for the voting of proxies so deposited as though the instruments themselves were produced at the meeting.

Any regulations so made shall be binding and effective and the votes given in accordance therewith shall be valid and shall be counted. Save as such regulations may provide, the only persons who shall be recognized at any meeting as the holders of any Debentures, or as entitled to vote or be present at the meeting in respect thereof, shall be Debentureholders and persons whom Debentureholders have by instrument in writing duly appointed as their proxies.

13.10 Persons Entitled to Attend Meetings

The Corporation and the Debenture Trustee, by their respective officers and directors, the Auditors of the Corporation and the legal advisers of the Corporation, the Debenture Trustee or any Debentureholder may attend any meeting of the Debentureholders, but shall have no vote as such.

13.11 Powers Exercisable by Extraordinary Resolution

In addition to the powers conferred upon them by any other provisions of this Indenture or by law, a meeting of the Debentureholders shall have the following powers exercisable from time to time by Extraordinary Resolution, subject in the case of the matters in paragraphs (a), (b), (c), (d) and (l) to receipt of the prior approval of the Toronto Stock Exchange or such other exchange (if applicable) on which the Debentures are then listed:

- (a) power to authorize the Debenture Trustee to grant extensions of time for payment of any principal, premium or interest on the Debentures, whether or not the principal, premium, or interest, the payment of which is extended, is at the time due or overdue;
- (b) power to sanction any modification, abrogation, alteration, compromise or arrangement of the rights of the Debentureholders or the Debenture Trustee against the Corporation, or against its property, whether such rights arise under this Indenture or the Debentures or otherwise;
- (c) power to assent to any modification of or change in or addition to or omission from the provisions contained in this Indenture or any Debenture which shall be agreed to by the Corporation and to authorize the Debenture Trustee to concur in and execute any

indenture supplemental hereto embodying any modification, change, addition or omission;

- (d) power to sanction any scheme for the reconstruction, reorganization or recapitalization of the Corporation or for the consolidation, amalgamation or merger of the Corporation with any other Person or for the sale, leasing, transfer or other disposition of all or substantially all of the undertaking, property and assets of the Corporation or any part thereof, provided that no such sanction shall be necessary in respect of any such transaction if the provisions of Section 11.1 shall have been complied with;
- (e) power to direct or authorize the Debenture Trustee to exercise any power, right, remedy or authority given to it by this Indenture in any manner specified in any such Extraordinary Resolution or to refrain from exercising any such power, right, remedy or authority;
- (f) power to waive, and direct the Debenture Trustee to waive, any default hereunder and/or cancel any declaration made by the Debenture Trustee pursuant to Section 8.1 either unconditionally or upon any condition specified in such Extraordinary Resolution;
- (g) power to restrain any Debentureholder from taking or instituting any suit, action or proceeding for the purpose of enforcing payment of the principal, premium or interest on the Debentures, or for the execution of any trust or power hereunder,
- (h) power to direct any Debentureholder who, as such, has brought any action, suit or proceeding to stay or discontinue or otherwise deal with the same upon payment, if the taking of such suit, action or proceeding shall have been permitted by Section 8.5, of the costs, charges and expenses reasonably and properly incurred by such Debentureholder in connection therewith;
- (i) power to assent to any compromise or arrangement with any creditor or creditors or any class or classes of creditors, whether secured or otherwise, and with holders of any shares or other securities of the Corporation;
- (j) power to appoint a committee with power and authority (subject to such limitations, if any, as may be prescribed in the resolution) to exercise, and to direct the Debenture Trustee to exercise, on behalf of the Debentureholders, such of the powers of the Debentureholders as are exercisable by Extraordinary Resolution or other resolution as shall be included in the resolution appointing the committee. The resolution making such appointment may provide for payment of the expenses and disbursements of and compensation to such committee. Such committee shall consist of such number of persons as shall be prescribed in the resolution appointing it and the members need not be themselves Debentureholders. Every such committee may elect its chairman and may make regulations respecting its quorum, the calling of its meetings, the filling of vacancies occurring in its number and its procedure generally. Such regulations may provide that the committee may act at a meeting at which a quorum is present or may act by minutes signed by the number of members thereof necessary to constitute a quorum. All acts of any such committee within the authority delegated to it shall be binding upon all Debentureholders. Neither the committee nor any member thereof shall be liable for any loss arising from or in connection with any action taken or omitted to be taken by them in good faith;

- (k) power to remove the Debenture Trustee from office and to appoint a new Debenture Trustee or Debenture Trustees provided that no such removal shall be effective unless and until a new Debenture Trustee or Debenture Trustees shall have become bound by this Indenture;
- (l) power to sanction the exchange of the Debentures for or the conversion thereof into shares, bonds, debentures or other securities or obligations of the Corporation or of any other Person formed or to be formed;
- (m) power to authorize the distribution *in specie* of any shares or securities received pursuant to a transaction authorized under the provisions of Section 13.11(1); and
- (n) power to amend, alter or repeal any Extraordinary Resolution previously passed or sanctioned by the Debentureholders or by any committee appointed pursuant to Section 13.11(j).

Notwithstanding the foregoing provisions of this Section 13.11 none of such provisions shall in any manner allow or permit any amendment, modification, abrogation or addition to the provisions of Article 5 which could reasonably be expected to detrimentally affect the rights, remedies or recourse of the priority of the Senior Creditors.

13.12 **Meaning of "Extraordinary Resolution"**

- (a) The expression "**Extraordinary Resolution**" when used in this Indenture means, subject as hereinafter in this Article provided, a resolution proposed to be passed as an Extraordinary Resolution at a meeting of Debentureholders (including a reconvened meeting) duly convened for the purpose and held in accordance with the provisions of this Article at which the holders of not less than 25% of the principal amount of the Debentures then outstanding, and if the meeting is a Serial Meeting, at which holders of not less than 25% of the principal amount of the Debentures then outstanding of each especially affected series, are present in person or by proxy and passed by the affirmative votes of the holders of not less than 66 2/3% of the principal amount of the Debentures, and if the meeting is a Serial Meeting by the affirmative vote of the holders of not less than 66 2/3% of each especially affected series, in each case present or represented by proxy at the meeting and voted upon on a poll on such resolution.
- (b) If, at any such meeting, the holders of not less than 25% of the principal amount of the Debentures then outstanding and, if the meeting is a Serial Meeting, 25% of the principal amount of the Debentures then outstanding of each especially affected series, in each case are not present in person or by proxy within 30 minutes after the time appointed for the meeting, then the meeting, if convened by or on the requisition of Debentureholders, shall be dissolved but in any other case it shall stand adjourned to such date, being not less than 14 nor more than 60 days later, and to such place and time as may be appointed by the chairman. Not less than 10 days notice shall be given of the time and place of such reconvened meeting in the manner provided in Section 14.2. Such notice shall state that at the reconvened meeting the Debentureholders present in person or by proxy shall form a quorum. At the reconvened meeting the Debentureholders present in person or by proxy shall form a quorum and may transact the business for which the meeting was originally convened and a resolution proposed at such reconvened meeting and passed thereat by the affirmative vote of holders of not less than 66 2/3% of the principal amount of the Debentures and, if the meeting is a Serial Meeting, by the affirmative vote of the

holders of not less than 66 2/3% of the principal amount of the Debentures of each especially affected series, in each case present or represented by proxy at the meeting voted upon on a poll shall be an Extraordinary Resolution within the meaning of this Indenture, notwithstanding that the holders of not less than 25% in principal amount of the Debentures then outstanding, and if the meeting is a Serial Meeting, holders of not less than 25% of the principal amount of the Debentures then outstanding of each especially affected series, are not present in person or by proxy at such reconvened meeting.

- (c) Votes on an Extraordinary Resolution shall always be given on a poll and no demand for a poll on an Extraordinary Resolution shall be necessary.

13.13 Powers Cumulative

Any one or more of the powers in this Indenture stated to be exercisable by the Debentureholders by Extraordinary Resolution or otherwise may be exercised from time to time and the exercise of any one or more of such powers from time to time shall not be deemed to exhaust the rights of the Debentureholders to exercise the same or any other such power or powers thereafter from time to time.

13.14 Minutes

Minutes of all resolutions and proceedings at every meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Debenture Trustee at the expense of the Corporation, and any such minutes as aforesaid, if signed by the chairman of the meeting at which such resolutions were passed or proceedings had, or by the chairman of the next succeeding meeting of the Debentureholders, shall be prima facie evidence of the matters therein stated and, until the contrary is proved, every such meeting, in respect of the proceedings of which minutes shall have been made, shall be deemed to have been duly held and convened, and all resolutions passed thereat or proceedings taken thereat to have been duly passed and taken.

13.15 Instruments in Writing

All actions which may be taken and all powers that may be exercised by the Debentureholders at a meeting held as hereinbefore in this Article provided may also be taken and exercised by the holders of 66 2/3% of the principal amount of all the outstanding Debentures and, if the meeting at which such actions might be taken would be a Serial Meeting, by the holders of 66 2/3% of the principal amount of the Debentures then outstanding of each especially affected series, by an instrument in writing signed in one or more counterparts and the expression "Extraordinary Resolution" when used in this Indenture shall include an instrument so signed.

13.16 Binding Effect of Resolutions

Every resolution and every Extraordinary Resolution passed in accordance with the provisions of this Article at a meeting of Debentureholders shall be binding upon all the Debentureholders, whether present at or absent from such meeting, and every instrument in writing signed by Debentureholders in accordance with Section 13.15 shall be binding upon all the Debentureholders, whether signatories thereto or not, and each and every Debentureholder and the Debenture Trustee (subject to the provisions for its indemnity herein contained) shall be bound to give effect accordingly to every such resolution, Extraordinary Resolution and instrument in writing.

13.17 Evidence of Rights Of Debentureholders

- (a) Any request, direction, notice, consent or other instrument which this Indenture may require or permit to be signed or executed by the Debentureholders may be in any number of concurrent instruments of similar tenor signed or executed by such Debentureholders.
- (b) The Debenture Trustee may, in its discretion, require proof of execution in cases where it deems proof desirable and may accept such proof as it shall consider proper.

13.18 Concerning Serial Meetings

Subject to Section 12.2(d), if in the opinion of Counsel any business to be transacted at any meeting, or any action to be taken or power to be exercised by instrument in writing under Section 13.15, does not adversely affect the rights of the holders of Debentures of one or more series, the provisions of this Article 13 shall apply as if the Debentures of such series were not outstanding and no notice of any such meeting need be given to the holders of Debentures of such series. Without limiting the generality of the foregoing, a proposal to modify or terminate any covenant or agreement which is effective only so long as Debentures of a particular series are outstanding shall be deemed not to adversely affect the rights of the holders of Debentures of any other series.

**ARTICLE 14
NOTICES**

14.1 Notice to Corporation

Any notice to the Corporation under the provisions of this Indenture shall be valid and effective if delivered to the Corporation at: Sterling Shoes Inc., c/o Sterling Shoes GP Inc., 2580 Viscount Way Richmond, BC V6V 1N1 Canada, Attention: Chief Financial Officer, Facsimile: 604-878-7751, or if given by registered letter, postage prepaid, to such offices and so addressed and if mailed, shall be deemed to have been effectively given three days following the mailing thereof. The Corporation may from time to time notify the Debenture Trustee in writing of a change of address which thereafter, until changed by like notice, shall be the address of the Corporation for all purposes of this Indenture.

14.2 Notice to Debentureholders

All notices to be given hereunder with respect to the Debentures shall be deemed to be validly given to the holders thereof if sent by first class mail, postage prepaid, by letter or circular addressed to such holders at their post office addresses appearing in any of the registers hereinbefore mentioned and shall be deemed to have been effectively given three days following the day of mailing. Accidental error or omission in giving notice or accidental failure to mail notice to any Debentureholder or the inability of the Corporation to give or mail any notice due to anything beyond the reasonable control of the Corporation shall not invalidate any action or proceeding founded thereon.

If any notice given in accordance with the foregoing paragraph would be unlikely to reach the Debentureholders to whom it is addressed in the ordinary course of post by reason of an interruption in mail service, whether at the place of dispatch or receipt or both, the Corporation shall give such notice by publication at least once in the City of Vancouver, British Columbia, such publication to be made in a daily newspaper of general circulation in the designated city.

Any notice given to Debentureholders by publication shall be deemed to have been given on the day on which publication shall have been effected at least once in each of the newspapers in which publication was required.

All notices with respect to any Debenture may be given to whichever one of the holders thereof (if more than one) is named first in the registers hereinbefore mentioned, and any notice so given shall be sufficient notice to all holders of any persons interested in such Debenture.

14.3 Notice to Debenture Trustee

Any notice to the Debenture Trustee under the provisions of this Indenture shall be valid and effective if delivered to the Debenture Trustee at its principal office in the City of Vancouver, 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, Attention: Manager, Corporate Trust Department, Facsimile: (604) 604-661-9403, or if given by registered letter, postage prepaid, to such office and so addressed and, if mailed, shall be deemed to have been effectively given three days following the mailing thereof. The Debenture Trustee may from time to time notify the Corporation in writing of a change of address which thereafter, until by like notice shall be the address of the Debenture Trustee to receive notices from the Corporation.

14.4 Notice to Underwriters

Any notice to the Underwriters under the provisions of this Indenture shall be valid and effective if delivered to the Underwriters at its office specified in the applicable supplemental indenture, and in the case of the Initial Debentures, at the office of CIBC World Markets Inc., 400 Burrard Street, Vancouver, British Columbia V6C 3A6, Attention: Managing Director, Facsimile: (604) 891-6330, or if given by registered letter, postage prepaid, to such office and so addressed and, if mailed, shall be deemed to have been effectively given three days following the mailing thereof. The Underwriters may from time to time notify the Corporation in writing of a change of address which thereafter, until by like notice shall be the address of the Underwriters to receive notices from the Corporation.

14.5 Mail Service Interruption

If by reason of any interruption of mail service, actual or threatened, any notice to be given to the Debenture Trustee would reasonably be unlikely to reach its destination by the time notice by mail is deemed to have been given pursuant to Section 14.3, such notice shall be valid and effective only if delivered at the appropriate address in accordance with Section 14.3.

ARTICLE 15 CONCERNING THE DEBENTURE TRUSTEE

15.1 No Conflict of Interest

The Debenture Trustee represents to the Corporation that at the date of execution and delivery by it of this Indenture there exists no material conflict of interest in the role of the Debenture Trustee as a fiduciary hereunder but if, notwithstanding the provisions of this Section 15.1, such a material conflict of interest exists, or hereafter arises, the validity and enforceability of this Indenture, and the Debentures issued hereunder, shall not be affected in any manner whatsoever by reason only that such material conflict of interest exists or arises but the Debenture Trustee shall, within 30 days after ascertaining that it has a material conflict of interest, either eliminate such material conflict of interest or resign in the manner and with the effect specified in Section 15.2.

15.2 Replacement of Debenture Trustee

The Debenture Trustee may resign its trust and be discharged from all further duties and liabilities hereunder by giving to the Corporation 90 days notice in writing or such shorter notice as the Corporation may accept as sufficient. If at any time a material conflict of interest exists in the Debenture Trustee's role as a fiduciary hereunder the Debenture Trustee shall, within 30 days after ascertaining that such a material conflict of interest exists, either eliminate such material conflict of interest or resign in the manner and with the effect specified in this Section 15.2. The validity and enforceability of this Indenture and of the Debentures issued hereunder shall not be affected in any manner whatsoever by reason only that such a material conflict of interest exists. In the event of the Debenture Trustee resigning or being removed or being dissolved, becoming bankrupt, going into liquidation or otherwise becoming incapable of acting hereunder, the Corporation shall forthwith appoint a new Debenture Trustee unless a new Debenture Trustee has already been appointed by the Debentureholders. Failing such appointment by the Corporation, the retiring Debenture Trustee or any Debentureholder may apply to a Judge of the British Columbia Supreme Court, on such notice as such Judge may direct at the Corporation's expense, for the appointment of a new Debenture Trustee but any new Debenture Trustee so appointed by the Corporation or by the Court shall be subject to removal as aforesaid by the Debentureholders and the appointment of such new Debenture Trustee shall be effective only upon such new Debenture Trustee becoming bound by this Indenture. Any new Debenture Trustee appointed under any provision of this Section 15.2 shall be a corporation authorized to carry on the business of a trust company in all of the Provinces of Canada. On any new appointment the new Debenture Trustee shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named herein as Debenture Trustee.

Any company into which the Debenture Trustee may be merged or, with or to which it may be consolidated, amalgamated or sold, or any company resulting from any merger, consolidation, sale or amalgamation to which the Debenture Trustee shall be a party, or any company succeeding to the corporate trust business of the Debenture Trustee shall be the successor trustee under this Indenture without the execution of any instrument or any further act. Nevertheless, upon the written request of the successor Debenture Trustee or of the Corporation, the Debenture Trustee ceasing to act shall execute and deliver an instrument assigning and transferring to such successor Debenture Trustee, upon the trusts herein expressed, all the rights, powers and trusts of the Debenture Trustee so ceasing to act, and shall duly assign, transfer and deliver all property and money held by such Debenture Trustee to the successor Debenture Trustee so appointed in its place. Should any deed, conveyance or instrument in writing from the Corporation be required by any new Debenture Trustee for more fully and certainly vesting in and confirming to it such estates, properties, rights, powers and trusts, then any and all such deeds, conveyances and instruments in writing shall on request of said new Debenture Trustee, be made, executed, acknowledged and delivered by the Corporation.

15.3 Duties of Debenture Trustee

In the exercise of the rights, duties and obligations prescribed or conferred by the terms of this Indenture, the Debenture Trustee shall act honestly and in good faith and exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

15.4 Reliance Upon Declarations, Opinions, etc.

In the exercise of its rights, duties and obligations hereunder the Debenture Trustee may, if acting in good faith, rely, as to the truth of the statements and accuracy of the opinions expressed therein, upon statutory declarations, opinions, reports or certificates furnished pursuant to any covenant, condition or requirement of this Indenture or required by the Debenture Trustee to be furnished to it in the exercise of its rights and duties hereunder, if the Debenture Trustee examines such statutory declarations,

opinions, reports or certificates and determines that they comply with Section 15.5, if applicable, and with any other applicable requirements of this Indenture. The Debenture Trustee may nevertheless, in its discretion, require further proof in cases where it deems further proof desirable. Without restricting the foregoing, the Debenture Trustee may rely on an opinion of Counsel satisfactory to the Debenture Trustee notwithstanding that it is delivered by a solicitor or firm which acts as solicitors for the Corporation.

15.5 Evidence and Authority to Debenture Trustee, Opinions, etc.

The Corporation shall furnish to the Debenture Trustee evidence of compliance with the conditions precedent provided for in this Indenture relating to any action or step required or permitted to be taken by the Corporation or the Debenture Trustee under this Indenture or as a result of any obligation imposed under this Indenture, including without limitation, the certification and delivery of Debentures hereunder, the satisfaction and discharge of this Indenture and the taking of any other action to be taken by the Debenture Trustee at the request of or on the application of the Corporation, forthwith if and when (a) such evidence is required by any other Section of this Indenture to be furnished to the Debenture Trustee in accordance with the terms of this Section 15.5, or (b) the Debenture Trustee, in the exercise of its rights and duties under this Indenture, gives the Corporation written notice requiring it to furnish such evidence in relation to any particular action or obligation specified in such notice.

Such evidence shall consist of:

- (a) a Certificate of the Corporation or a certificate made by Sterling Shoes GP Inc., as general partner to Sterling Shoes LP (as the attorney to the Corporation), stating that any such condition precedent has been complied with in accordance with the terms of this Indenture;
- (b) in the case of a condition precedent compliance with which is, by the terms of this Indenture, made subject to review or examination by a solicitor, an opinion of Counsel that such condition precedent has been complied with in accordance with the terms of this Indenture; and
- (c) in the case of any such condition precedent compliance with which is subject to review or examination by auditors or accountants, an opinion or report of the Auditors of the Corporation whom the Debenture Trustee for such purposes hereby approves, that such condition precedent has been complied with in accordance with the terms of this Indenture.

Whenever such evidence relates to a matter other than the certificates and delivery of Debentures and the satisfaction and discharge of this Indenture, and except as otherwise specifically provided herein, such evidence may consist of a report or opinion of any solicitor, auditor, accountant, engineer or appraiser or any other person whose qualifications give authority to a statement made by him, provided that if such report or opinion is furnished by a trustee, officer or employer of the Corporation it shall be in the form of a statutory declaration. Such evidence shall be, so far as appropriate, in accordance with the immediately preceding paragraph of this Section.

Each statutory declaration, certificate, opinion or report with respect to compliance with a condition precedent provided for in the Indenture shall include (a) a statement by the person giving the evidence that he has read and is familiar with those provisions of this Indenture relating to the condition precedent in question, (b) a brief statement of the nature and scope of the examination or investigation upon which the statements or opinions contained in such evidence are based, (c) a statement that, in the belief of the person giving such evidence, he has made such examination or investigation as is necessary

to enable him to make the statements or give the opinions contained or expressed therein, and (d) a statement whether in the opinion of such person the conditions precedent in question have been complied with or satisfied.

The Corporation shall furnish to the Debenture Trustee annually and at any time if the Debenture Trustee reasonably so requires, a Certificate of the Corporation with all covenants, conditions or other requirements contained in this Indenture, the non-compliance with which would, with the giving of notice or the lapse of time, or both, or otherwise, constitute an Event of Default, or if such is not the case, specifying the covenant, condition or other requirement which has not been complied with and giving particulars of such non-compliance. The Corporation shall, whenever the Debenture Trustee so requires, furnish the Debenture Trustee with evidence by way of statutory declaration, opinion, report or certificate as specified by the Debenture Trustee as to any action or step required or permitted to be taken by the Corporation or as a result of any obligation imposed by this Indenture.

15.6 Debenture Trustee May Rely on Certificate of the Corporation

Except as otherwise specifically provided or prescribed by this Indenture, whenever in the administration of the provisions of this Indenture the Debenture Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, the Debenture Trustee, if acting in good faith, may rely upon a Certificate of the Corporation.

15.7 Experts, Advisers and Agents

The Debenture Trustee may:

- (a) employ or retain and act and rely on the opinion or advice of or information obtained from any solicitor, auditor, valuer, engineer, surveyor, appraiser or other expert, whether obtained by the Debenture Trustee or by the Corporation, or otherwise, and shall not be liable for acting, or refusing to act, in good faith on any such opinion or advice and may pay proper and reasonable compensation for all such legal and other advice or assistance as aforesaid, payable by the Corporation in accordance with Section 15.19(a); and
- (b) employ such agents and other assistants as it may reasonably require for the proper discharge of its duties hereunder, and may pay reasonable remuneration for all services performed for it (and shall be entitled to receive reasonable remuneration for all services performed by it) in the discharge of the trusts hereof and compensation for all disbursements, costs and expenses made or incurred by it in the determination and discharge of its duties hereunder and in the management of the trusts hereof and any solicitors employed or consulted by the Debenture Trustee may, but need not be, solicitors for the Corporation.

15.8 Debenture Trustee May Deal in Debentures

Subject to Sections 15.1 and 15.3, the Debenture Trustee may, in its personal or other capacity, buy, sell, lend upon and deal in the Debentures and generally contract and enter into financial transactions with the Corporation or otherwise, without being liable to account for any profits made thereby.

15.9 Investment of Monies Held by Debenture Trustee

Upon receipt of a direction from the Corporation, the Debenture Trustee shall invest any monies held by it in Government Obligations in its name in accordance with such direction. Any direction from the Corporation to the Debenture Trustee shall be in writing and shall be provided to the Debenture Trustee no later than 8:30 a.m. (Vancouver time) on the day on which the investment is to be made. Any such direction received by the Debenture Trustee after 8:30 a.m. (Vancouver time) or received on a day that is not a Business Day, shall be deemed to have been given prior to 8:30 a.m. (Vancouver time) on the next Business Day.

In the event that the Debenture Trustee does not receive a direction or only a partial direction, the Debenture Trustee may hold cash balances constituting part or all of the escrow fund and may, but need not, invest same in its deposit department or the deposit department of one of its Affiliates; but the Debenture Trustee and its Affiliates shall not be liable to account for any profit to any parties to this Indenture or to any person or any entity other than at a rate, if any, established from time to time by the Debenture Trustee or one of its Affiliates.

Unless and until the Debenture Trustee shall have declared the principal of and interest on the Debentures to be due and payable, the Debenture Trustee shall pay over to the Corporation all interest received by the Debenture Trustee in respect of any investments or deposits made pursuant to the provisions of this Section.

15.10 Debenture Trustee will Disburse Only Monies Deposited

The Debenture Trustee will disburse monies according to this Indenture only to the extent that monies have been deposited with it.

15.11 Third Party Interests

The Corporation hereby represents to the Debenture Trustee that any account to be opened by, or interest to be held by, the Debenture Trustee in connection with this Indenture, for or to the credit of the Corporation, either:

- (a) is not intended to be used by or on behalf of any third party; or
- (b) is intended to be used by or on behalf of a third party, in which case such third party hereto agrees to complete and execute forthwith a declaration in the Debenture Trustee's prescribed form as to the particulars of such third party.

15.12 Debenture Trustee Not Ordinarily Bound

Except as provided in Section 8.2 and as otherwise specifically provided herein, the Debenture Trustee shall not, subject to Section 15.3, be bound to give notice to any person of the execution hereof, nor to do, observe or perform or see to the observance or performance by the Corporation of any of the obligations herein imposed upon the Corporation or of the covenants on the part of the Corporation herein contained, nor in any way to supervise or interfere with the conduct of the Corporation's business, unless the Debenture Trustee shall have been required to do so in writing by the holders of not less than 25% of the aggregate principal amount of the Debentures then outstanding or by any Extraordinary Resolution of the Debentureholders passed in accordance with the provisions contained in Article 13, and then only after it shall have been funded and indemnified to its satisfaction against all

actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

15.13 Debenture Trustee Not Required to Give Security

The Debenture Trustee shall not be required to give any bond or security in respect of the execution of the trusts and powers of this Indenture or otherwise in respect of the premises.

15.14 Debenture Trustee Not Bound to Act on Corporation's Request

Except as in this Indenture otherwise specifically provided, the Debenture Trustee shall not be bound to act in accordance with any direction or request of the Corporation or of the trustee until a duly authenticated copy of the instrument or resolution containing such direction or request shall have been delivered to the Debenture Trustee, and the Debenture Trustee shall be empowered to act upon any such copy purporting to be authenticated and believed by the Debenture Trustee to be genuine.

15.15 Debenture Trustee Not Bound to Act

The Debenture Trustee shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Debenture Trustee, in its sole judgment, determines that such act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Debenture Trustees, in its sole judgment, determine at any time that its acting under this Indenture has resulted in its being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right to resign on 10 days' written notice to the Corporation, notwithstanding the provisions of Section 15.2 of this Indenture, provided that:

- (a) the Debenture Trustee's written notice shall describe the circumstances of such non-compliance; and
- (b) if such circumstances are rectified to the Debenture Trustee's satisfaction within such 10 day period, then such resignation shall not be effective.

15.16 Debenture Trustee Protected in Acting

The Debenture Trustee may act and rely, and shall be protected in acting and relying absolutely, upon any resolution, Certificate of the Corporation, statement, instrument, opinion, report, notice, request, consent, order, letter, facsimile transmission or other paper document believed in good faith by it to be genuine and to have been signed, sent or presented by or on behalf of the proper party or parties. The Debenture Trustee shall be protected in acting and relying upon any written notice, request, waiver, consent, certificate, receipt, statutory declaration, affidavit or other paper or document furnished to it, not only as to its due execution and the validity and the effectiveness of its provisions but also as to the truth and acceptability of any information therein contained which it in good faith believes to be genuine and what it purports to be.

15.17 Conditions Precedent to Debenture Trustee's Obligations to Act Hereunder

The obligation of the Debenture Trustee to commence or continue any act, action or proceeding for the purpose of enforcing the rights of the Debenture Trustee and of the Debentureholders hereunder shall be conditional upon the Debentureholders furnishing when required by notice in writing by the Debenture Trustee, sufficient funds to commence or continue such act, action or proceeding and

indemnity reasonably satisfactory to the Debenture Trustee to protect and hold harmless the Debenture Trustee against the costs, charges and expenses and liabilities to be incurred thereby and any loss and damage it may suffer by reason thereof.

None of the provisions contained in this Indenture shall require the Debenture Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers unless indemnified and funded as aforesaid.

The Debenture Trustee may, before commencing or at any time during the continuance of any such act, action or proceeding require the Debentureholders at whose instance it is acting to deposit with the Debenture Trustee the Debentures held by them for which Debentures the Debenture Trustee shall issue receipts.

15.18 Authority to Carry on Business

The Debenture Trustee represents to the Corporation that at the date of execution and delivery by it of this Indenture it is authorized to carry on the business of a trust company in the Provinces of British Columbia and Ontario but if, notwithstanding the provisions of this Section 15.18, it ceases to be so authorized to carry on business, the validity and enforceability of this Indenture and the securities issued hereunder shall not be affected in any manner whatsoever by reason only of such event but the Debenture Trustee shall, within 90 days after ceasing to be authorized to carry on the business of trust company in the Provinces of British Columbia and Ontario, either become so authorized or resign in the manner and with the effect specified in Section 15.2.

15.19 Compensation and Indemnity

- (a) The Corporation, which for the purpose of this Section 15.19 shall include any Successor (as defined in Section 11.1), shall pay to the Debenture Trustee from time to time compensation for its services hereunder as agreed separately by the Corporation and the Debenture Trustee, and shall pay or reimburse the Debenture Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Debenture Trustee in the administration or execution of its duties under this Indenture (including the reasonable and documented compensation and disbursements of its Counsel and all other advisers and assistants not regularly in its employ), both before any default hereunder and thereafter until all duties of the Debenture Trustee under this Indenture shall be finally and fully performed. The Debenture Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust.
- (b) The Corporation hereby indemnifies and saves harmless the Debenture Trustee and its directors, officers, employees and agents (collectively, the "**Indemnified Parties**" and each an "**Indemnified Party**") from and against any and all loss, damages, charges, expenses, claims, demands, actions or liability whatsoever which may be brought against an Indemnified Party or which it may suffer or incur as a result of or arising out of the performance of its duties and obligations hereunder save only in the event of the negligent failure to act, or the wilful misconduct or bad faith of an Indemnified Party. This indemnity will survive the termination or discharge of this Indenture and the resignation or removal of the Debenture Trustee. An Indemnified Party shall notify the Corporation promptly of any claim for which it may seek indemnity. The Corporation shall defend the claim and the Indemnified Party shall co-operate in the defence. An Indemnified Party may have separate counsel and the Corporation shall pay the reasonable fees and expenses of such Counsel. The Corporation need not pay for any

settlement made without its consent, which consent must not be unreasonably withheld. This indemnity shall survive the resignation or removal of the Debenture Trustee or the discharge of this Indenture.

- (c) The Corporation need not reimburse any expense or indemnify against any loss or liability incurred by the Debenture Trustee through negligence, wilful misconduct or bad faith.

15.20 Acceptance of Trust

The Debenture Trustee hereby accepts the trusts in this Indenture declared and provided for and agrees to perform the same upon the terms and conditions herein set forth and to hold all rights, privileges and benefits conferred hereby and by law in trust for the various persons who shall from time to time be Debentureholders, subject to all the terms and conditions herein set forth.

15.21 Withholding Obligation

For greater certainty, the Debenture Trustee shall, as directed by the Corporation, withhold, from any payment made to a holder of a Debenture pursuant to the terms of this Indenture, the amount of any applicable withholding taxes required to be withheld in respect of such payment, and the Debenture Trustee shall remit such withheld amounts to the appropriate governmental authority, as and when required. For the purposes of determining the appropriate withholdings to be made from any payment to be made to a holder of a Debenture, the Corporation and the Debenture Trustee agree to co-operate and to provide each other with any relevant information they have with respect to the holders of the Debentures. If the Corporation satisfies any of its obligations to a holder hereunder by issuing Freely Tradeable Shares and the holder is subject to withholding taxes, and the amount of the cash payment due to the holder, if any, is insufficient to satisfy such withholding taxes, the Debenture Trustee, on the Written Direction of the Corporation, but for the account of the holder, shall sell, through the investment banks, brokers or dealers selected by the Corporation, out of the Freely Tradeable Shares issued by the Corporation for this purpose, such number of Freely Tradeable Shares that together with the cash component is sufficient to yield net proceeds (after payment of all costs) to cover the amount of taxes required to be withheld, and shall remit same on behalf of the Corporation to the proper tax authorities within the period of time prescribed for this purpose under applicable laws.

ARTICLE 16 SUPPLEMENTAL INDENTURES

16.1 Supplemental Indentures

From time to time the Debenture Trustee and, when authorized by a resolution of the Directors, the Corporation, may, and they shall when required by this Indenture, subject to the prior written approval of the Toronto Stock Exchange, execute, acknowledge and deliver by their proper officers deeds or indentures supplemental hereto which thereafter shall form part hereof, for any one or more of the following purposes:

- (a) providing for the issuance of Additional Debentures under this Indenture;
- (b) adding to the covenants of the Corporation herein contained for the protection of the Debentureholders, or of the Debentures of any series, or providing for events of default, in addition to those herein specified;

- (c) making such provisions not inconsistent with this Indenture as may be necessary or desirable with respect to matters or questions arising hereunder, including the making of any modifications in the form of the Debentures which do not affect the substance thereof and which in the opinion of the Debenture Trustee (relying on an opinion of Counsel), the rights of the Debentureholders are in no way prejudiced thereby;
- (d) evidencing the succession, or successive successions, of others to the Corporation and the covenants of and obligations assumed by any such successor in accordance with the provisions of this Indenture;
- (e) giving effect to any Extraordinary Resolution passed as provided in Article 13; and
- (f) for any other purpose not inconsistent with the terms of this Indenture, provided that, in the opinion of the Debenture Trustee (relying on an opinion of Counsel), the rights of the Debentureholders are in no way prejudiced thereby.

Unless the supplemental indenture requires the consent or concurrence of Debentureholders or the holders of a particular series of Debentures, as the case may be, by Extraordinary Resolution, the consent or concurrence of Debentureholders or the holders of a particular series of Debentures, as the case may be, shall not be required in connection with the execution, acknowledgement or delivery of a supplemental indenture. The Corporation and the Debenture Trustee may amend any of the provisions of this Indenture related to matters of United States law or the issuance of Debentures into the United States in order to ensure that such issuances can be properly done in accordance with applicable law in the United States without the consent or approval of the Debentureholders. Further, the Corporation and the Debenture Trustee may without the consent or concurrence of the Debentureholders or the holders of a particular series of Debentures, as the case may be, by supplemental indenture or otherwise, make any changes or corrections in this Indenture which it shall have been advised by Counsel are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained herein or in any indenture supplemental hereto or any Written Direction of the Corporation provided for the issue of Debentures, providing that in the opinion of the Debenture Trustee (relying upon an opinion of Counsel) the rights of the Debentureholders are in no way prejudiced thereby.

ARTICLE 17 EXECUTION AND FORMAL DATE

17.1 Execution

This Indenture may be simultaneously executed in several counterparts, each of which when so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

17.2 Formal Date

For the purpose of convenience this Amended and Restated Indenture may be referred to as bearing the formal date of June 30, 2010 irrespective of the actual date of execution hereof.

IN WITNESS whereof the each of the parties hereto have caused this Amended and Restated Indenture to be signed under seal by its duly authorized representatives,

COMPUTERSHARE TRUST COMPANY OF CANADA

By: "Nicole H. Clement"
Name: Nicole H. Clement
Title: General Manager

By: "Karl Burgess"
Name: Karl Burgess
Title: Professional, Corporate Trust

STERLING SHOES INC.

By: "Daniel Gumprich"
Name: Daniel Gumprich
Title: Chief Financial Officer

STERLING SHOES INC.

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA

SCHEDULE "A" TO THE AMENDED AND RESTATED TRUST INDENTURE

Form of Debenture

SCHEDULE "A"

This Debenture is a Global Debenture within the meaning of the Indenture herein referred to and is registered in the name of a Depository or a nominee thereof. This Debenture may not be transferred to or exchanged for Debentures registered in the name of any person other than the Depository or a nominee thereof and no such transfer may be registered except in the limited circumstances described in the Indenture. Every Debenture authenticated and delivered upon registration of, transfer of, or in exchange for, or in lieu of, this Debenture shall be a Global Debenture subject to the foregoing, except in such limited circumstances described in the Indenture.

Unless this certificate is presented by an authorized representative of CDS Clearing and Depository Services Inc. ("CDS") to Sterling Shoes Inc. or its agent for registration of transfer, exchange or payment, and any certificate issued in respect thereof is registered in the name of CDS & CO., or in such other name as is requested by an authorized representative of CDS, (and any payment is made to CDS & Co. or to such other entity as is requested by an authorized representative of CDS) ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since as the registered holder hereof, CDS & CO. has a property interest in the securities represented by this certificate herein and it is a violation of its rights for another person to hold, transfer or deal with this certificate.

CUSIP: 859545AA3
ISIN: CA 859545AA35

No. 2

STERLING SHOES INC.

(A Corporation governed by the Canada Business Corporations Act)

6.50% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURE DUE OCTOBER 31, 2012

STERLING SHOES INC. (the "Corporation") for value received hereby acknowledges itself indebted and, subject to the provisions of the amended and restated trust indenture dated as of June 30, 2010 between the Corporation and Computershare Trust Company of Canada (the "Debenture Trustee") (the "Indenture"), promises to pay to the registered holder, CDS & Co., on October 31, 2012 (the "Maturity Date") or on such earlier date as the principal amount hereof may become due in accordance with the provisions of the Indenture the principal sum of twenty-five million Dollars (\$25,000,000) in lawful money of Canada on presentation and surrender of this Initial Debenture at the principal offices of the Debenture Trustee in Vancouver or Toronto in accordance with the terms of the Indenture and, subject as hereinafter provided, to pay interest on the principal amount hereof from the date hereof, or from the last Interest Payment Date to which interest shall have been paid or made available for payment hereon, whichever is later, at the rate of 6.50% per annum, in like money, payable in arrears in semi-annual instalments (less any tax required by law to be deducted) on October 31 and April 30 in each year commencing on April 30, 2008 and the last payment (representing interest payable from the last Interest Payment Date to, but excluding, the Maturity Date or the earlier date of redemption) to fall due on the Maturity Date and, should the Corporation at any time make default in the payment of any principal or interest, to pay interest on the amount in default at the same rate, in like money and on the same dates. For certainty, the first interest payment will include interest accrued from October 3, 2007 to, but excluding April 30, 2008, which will be equal to \$37.2950819672 for each \$1,000 principal amount of the Initial Debentures.

Interest hereon shall be payable by cheque mailed by prepaid ordinary mail to the registered holder hereof or by electronic transfer of funds to the registered holder hereof and, subject to the provisions of the Indenture, the mailing of such cheque or the sending of such electronic transfer of funds shall, to the extent of the sum represented thereby (plus the amount of any tax withheld), satisfy and discharge all liability for interest on this Initial Debenture. This Initial Debenture is one of the Debentures of the Corporation issued or issuable in one or more series under the provisions of the Indenture. The Initial Debentures authorized for issue immediately are limited to an aggregate principal amount of \$25,000,000 in lawful money of Canada. Reference is hereby expressly made to the Indenture for a description of the terms and conditions upon which the Initial Debentures are or are to be issued and held and the rights and remedies of the holders of the Initial Debentures and of the Corporation and of the Debenture Trustee, all to the same effect as if the provisions of the Indenture were herein set forth to all of which provisions the holder of this Initial Debenture by acceptance hereof assents. The Initial Debentures are issuable only in denominations of \$1,000 and integral multiples thereof. Upon compliance with the provisions of the Indenture, Debentures of any denomination may be exchanged for an equal aggregate principal amount of Debentures in any other authorized denomination or denominations. Any part, being \$1,000 or an integral multiple thereof, of the principal of this Initial Debenture, provided that the principal amount of this Initial Debenture is in a denomination in excess of \$1,000, is convertible, at the option of the holder hereof, upon surrender of this Initial Debenture at the principal offices of the Debenture Trustee in Vancouver or Toronto, at any time prior to the close of business on the Maturity Date or, if this Initial Debenture has been called for redemption on or prior to such date, then up to but not after the close of business on the last Business Day immediately preceding the date specified for redemption of this Initial Debenture, into Shares at a conversion price of \$21.15 (the "Conversion Price") per Share, being a conversion rate of approximately 47.281 Shares for each \$1,000 principal amount of Initial Debentures so converted, all subject to the terms and conditions and in the manner set forth in the Indenture. The Indenture makes provision for the adjustment of the Conversion Price in the events therein specified. No fractional Shares will be issued on any conversion but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the market price of such fractional interest determined in accordance with the Indenture. No adjustment in the number of Shares to be issued upon conversion will be made for distributions or dividends on Shares issuable upon conversion or for interest accrued on Initial Debentures surrendered for conversion. Holders converting their Initial Debentures will receive interest which has accrued but not been paid from and including the most recently completed Interest Payment Date to, but excluding, the Date of Conversion.

This Initial Debenture may be redeemed at the option of the Corporation on the terms and conditions set out in the Indenture at the redemption price therein and herein set out provided that this Initial Debenture is not redeemable on or before October 31, 2010, except in the event of the satisfaction of certain conditions after a Change of Control has occurred. After October 31, 2010 and on or before October 31, 2011, this Initial Debenture is not redeemable unless the Corporation shall file with the Debenture Trustee on the day that notice of redemption of this Initial Debenture is first given, a Certificate of the Corporation certifying that the weighted average price of the Shares on the Toronto Stock Exchange (or elsewhere in accordance with the Indenture) for 20 consecutive trading days, ending on the fifth trading day preceding the date on which such notice is given, is at least 125% of the Conversion Price then in effect. After October 31, 2011 and prior to the Maturity Date, the Initial Debentures are redeemable at the option of the Corporation on the terms and conditions set out in the Indenture at the Redemption Price set out therein irrespective of the price of the Shares on the Toronto Stock Exchange (or elsewhere in accordance with the Indenture). The Corporation may, on notice as provided in the Indenture, at its option and subject to any applicable regulatory approval, elect to satisfy its obligation to pay all or any portion of the applicable redemption price by the issue of that number of Shares obtained by dividing the applicable redemption price by 95% of the weighted average trading price of the Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the Redemption Date. No fractional Shares will be issued upon such redemptions

but in lieu thereof, the Corporation will satisfy such fractional interests by a cash payment equal to the market price of such fractional interest determined in accordance with the Indenture. At the time of redemption, the Corporation will pay to the registered holder hereof accrued and unpaid interest from and including the last Interest Payment Date to, but excluding the Redemption Date.

Within 30 days following the occurrence of a Change of Control of the Corporation, the Corporation is required to make an offer to purchase all of the Initial Debentures at a price equal to 101% of the principal amount of such Initial Debentures plus accrued and unpaid interest up to, but excluding, the date the Initial Debentures are so repurchased (the "Offer"). If 90% or more of the principal amount of all Debentures outstanding on the date the Corporation provides notice of a Change of Control to the Debenture Trustee have been tendered for purchase pursuant to the Offer, the Corporation has the right and obligation to redeem, within 10 days following the expiration of the Offer, all the remaining outstanding Initial Debentures on the same date and at the same price.

If a takeover bid for Initial Debentures, within the meaning of the *Securities Act* (British Columbia), is made and 90% or more of the principal amount of all the Initial Debentures (other than Initial Debentures held at the date of the takeover bid by or on behalf of the offeror, Associates or Affiliates of the offeror or anyone acting jointly or in concert with the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Initial Debentures of those holders who did not accept the offer on the same terms as the offeror acquired the first 90% of the principal amount of the Initial Debentures.

The Corporation may, on notice as provided in the Indenture, at its option and subject to any applicable regulatory approval, elect to satisfy the obligation to repay all or any portion of the principal amount of this Initial Debenture due on the Maturity Date by the issue of that number of Freely Tradeable Shares obtained by dividing the principal amount of the Initial Debentures to be paid for in Shares pursuant to the exercise by the Corporation of the Share Repayment Right by 95% of the weighted average trading price of the Shares on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the Maturity Date. No fractional Shares will be issued upon maturity but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the market price of such fractional interest determined in accordance with the Indenture. Interest accrued but unpaid on this Initial Debenture on the Maturity Date will be paid to the holder hereof in cash.

The indebtedness evidenced by this Initial Debenture, and by all other Initial Debentures now or hereafter certified and delivered under the Indenture, is a direct unsecured obligation of the Corporation, and is subordinated in right of payment, to the extent and in the manner provided in the Indenture, to the prior payment in full of all Senior Indebtedness (including any indebtedness to trade creditors), whether outstanding at the date of the Indenture or thereafter created, incurred, assumed or guaranteed.

The principal amount hereof may become or be declared due and payable before the stated maturity in the events, in the manner, with the effect and at the times provided in the Indenture.

Any payment of money or transfer of Shares to any holder of Debentures will be reduced by the amount of applicable withholding taxes, if any. The Indenture contains provisions making binding upon all holders of Debentures outstanding thereunder (or in certain circumstances specific series of Debentures) resolutions passed at meetings of such holders held in accordance with such provisions and instruments signed by the holders of a specified majority of Debentures outstanding (or specific series), which resolutions or instruments may have the effect of amending the terms of this Initial Debenture or the Indenture.

The Indenture contains provisions disclaiming any personal liability on the part of holders of Shares, Directors, officers or agents of the Corporation in respect of any obligation or claim arising out of the Indenture or this Debenture.

This Initial Debenture may only be transferred, upon compliance with the conditions prescribed in the Indenture, in one of the registers to be kept at the principal offices of the Debenture Trustee in Vancouver and Toronto and in such other place or places and/or by such other registrars (if any) as the Corporation with the approval of the Debenture Trustee may designate. No transfer of this Initial Debenture shall be valid unless made on the register by the registered holder hereof or his executors or administrators or other legal representatives, or his or their attorney duly appointed by an instrument in form and substance satisfactory to the Debenture Trustee or other registrar, and upon compliance with such reasonable requirements as the Debenture Trustee and/or other registrar may prescribe and upon surrender of this Initial Debenture for cancellation. Thereupon a new Initial Debenture or Initial Debentures in the same aggregate principal amount shall be issued to the transferee in exchange hereof.

This Initial Debenture shall not become obligatory for any purpose until it shall have been certified by the Debenture Trustee under the Indenture.

Capitalized words or expressions used in this Initial Debenture shall, unless otherwise defined herein, have the meaning ascribed thereto in the Indenture.

IN WITNESS WHEREOF STERLING SHOES INC. has caused this Debenture to be signed by its authorized representatives as of the ____ day of _____, 200__

STERLING SHOES INC.

By: _____

Name: Daniel Gumprich

Title: Chief Financial Officer

(FORM OF DEBENTURE TRUSTEE'S CERTIFICATE)

This Initial Debenture is one of the 6.50% Convertible Unsecured Subordinated Debentures referred to in the Indenture within mentioned.

COMPUTERSHARE TRUST COMPANY OF CANADA

By: _____

(Authorized Officer)

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto •, whose address and social insurance number, if applicable, are set forth below, this Initial Debenture (or \$• principal amount hereof*) of STERLING SHOES INC. standing in the name(s) of the undersigned in the register maintained by the Corporation with respect to such Initial Debenture and does hereby irrevocably authorize and direct the Debenture Trustee to transfer such Initial Debenture in such register, with full power of substitution in the premises.

Dated: _____

Address of Transferee: _____
(Street Address, City, Province and Postal Code):

Social Insurance Number of Transferee, if applicable: _____

(*) If less than the full principal amount of the within Initial Debenture is to be transferred, indicate in the space provided the principal amount (which must be \$1,000 or an integral multiple thereof, unless you hold an Initial Debenture in a non-integral multiple of \$1,000 by reason of your having exercised your right to exchange upon the making of an Offer, in which case such Initial Debenture is transferable only in its entirety) to be transferred.

1. The signature(s) to this assignment must correspond with the name(s) as written upon the face of this Initial Debenture in every particular without alteration or any change whatsoever. The signature(s) must be guaranteed by a Canadian chartered bank or trust company or by a member of an acceptable Medallion Guarantee Program. Notarized or witnessed signatures are not acceptable as guaranteed signatures. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".
2. The registered holder of this Initial Debenture is responsible for the payment of any documentary, stamp or other transfer taxes that may be payable in respect of the transfer of this Debenture.

Signature of Guarantor:

Authorized Officer

Signature of transferring registered holder

Name of Institution:

EXHIBIT "P"

TO CDS GLOBAL DEBENTURE

STERLING SHOES INC.

6.50% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

Initial Principal Amount: \$25,000,000 Authorization:

ADJUSTMENTS

Date	Amount of Increase	Amount of Decrease	New Principal Amount	Authorization

STERLING SHOES INC.

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA

SCHEDULE "B" TO THE TRUST INDENTURE

Form of Redemption Notice

SCHEDULE "B"

FORM OF REDEMPTION NOTICE

STERLING SHOES INC.

6.50% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

REDEMPTION NOTICE

To: Holders of 6.50% Convertible Unsecured Subordinated Debentures (the "**Debentures**") of Sterling Shoes Inc. (the "**Corporation**")

Note: All capitalized terms used herein have the meaning ascribed thereto in the Indenture mentioned below, unless otherwise indicated.

Notice is hereby given pursuant to Section 4.3 of the trust indenture dated as of October 3, 2007 between Sterling Shoes Income Fund and Computershare Trust Company of Canada (the "**Debenture Trustee**"), as assumed by the Corporation by an amended and restated indenture supplemental to the aforesaid trust indenture dated June 30, 2010 between the Corporation and the Debenture Trustee (such trust indenture as so assumed and supplemented herein called the "**Indenture**"), that the aggregate principal amount of \$• of the \$• of Debentures outstanding will be redeemed as of (the "**Redemption Date**"), upon payment of a redemption amount of \$• for each \$1,000 principal amount of Debentures, being equal to the aggregate of (i) \$• (the "**Redemption Price**"), and (ii) all accrued and unpaid interest hereon to but excluding the Redemption Date (collectively, the "**Total Redemption Price**").

The Total Redemption Price will be payable upon presentation and surrender of the Debentures called for redemption at the following corporate trust office:

Computershare Trust Company of Canada
510 Burrard Street
Vancouver, British Columbia V3C 3B9

The interest upon the principal amount of Debentures called for redemption shall cease to be payable from and after the Redemption Date, unless payment of the Total Redemption Price shall not be made on presentation for surrender of such Debentures at the above-mentioned corporate trust office on or after the Redemption Date or prior to the setting aside of the Total Redemption Price pursuant to the Indenture.

Pursuant to Section 4.6 of the Indenture, the Corporation hereby irrevocably elects to satisfy its obligation to pay \$• of the Redemption Price payable to holders of Debentures in accordance with this notice by issuing and delivering to the holders that number of Freely Tradeable Shares obtained by dividing the Redemption Price by 95% of the Current Market Price of the Shares.

No fractional Shares shall be delivered upon the exercise by the Corporation of the above-mentioned redemption right but, in lieu thereof, the Corporation shall pay the cash equivalent thereof determined on the basis of the Current Market Price of Shares on the Redemption Date (less any tax required to be deducted, if any).

In this connection, upon presentation and surrender of the Debentures for payment on the Redemption Date, the Corporation shall, on the Redemption Date, make the delivery to the Debenture Trustee, at the above-mentioned corporate trust office, for delivery (less applicable withholding taxes, if any) to and on account of the holders, of certificates representing the Freely Tradeable Shares to which holders are entitled together with the cash equivalent in lieu of fractional Shares, cash for all accrued and unpaid interest up to, but excluding, the Redemption Date, and, if only a portion of the Debentures are to be redeemed by issuing Freely Tradeable Shares, cash representing the balance of the Redemption Price.

DATED: _____

STERLING SHOES INC.

By: _____
Authorized Signatory

STERLING SHOES INC.

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA

SCHEDULE "C" TO THE AMENDED AND RESTATED TRUST INDENTURE

Form of Maturity Notice

SCHEDULE "C"

FORM OF MATURITY NOTICE

STERLING SHOES INC.

6.50% CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES

MATURITY NOTICE

To: Holders of 6.50% Convertible Unsecured Subordinated Debentures (the "Debentures") of Sterling Shoes Inc. (the "Corporation")

Note: All capitalized terms used herein have the meaning ascribed thereto in the Indenture mentioned below, unless otherwise indicated..

Notice is hereby given pursuant to Section 4.3 of the trust indenture dated as of October 3, 2007 between Sterling Shoes Income Fund and Computershare Trust Company of Canada (the "Debenture Trustee"), as assumed by the Corporation by an amended and restated indenture supplemental to the aforesaid trust indenture dated June 30, 2010 between the Corporation and the Debenture Trustee (such trust indenture as so assumed and supplemented herein called the "Indenture"), that the Debentures are due and payable as of October 31, 2012 (the "Maturity Date") and the Corporation elects to satisfy its obligation to repay to holders of Debentures the principal amount of all of the Debentures outstanding on the Maturity Date by issuing and delivering to the holders that number of Freely Tradeable Shares equal to the number obtained by dividing such principal amount of the Debentures by 95% of the Current Market Price of Shares on the Maturity Date.

No fractional Shares shall be delivered on exercise by the Corporation of the above mentioned repayment right but, in lieu thereof, the Corporation shall pay the cash equivalent thereof determined on the basis of the Current Market Price of Shares on the Maturity Date (less any tax required to be deducted, if any).

In this connection, upon presentation and surrender of the Debentures for payment on the Maturity Date, the Corporation shall, on the Maturity Date, make delivery to the Debenture Trustee, at its principal corporate trust offices in Vancouver and Toronto, for delivery (less applicable withholding taxes, if any) to and on account of the holders, of certificates representing the Freely Tradeable Shares to which holders are entitled together with the cash equivalent in lieu of fractional Shares, cash for all accrued and unpaid interest up to, but excluding, the Maturity Date and if only a portion of the Debentures are to be repaid by issuing Freely Tradeable Shares, cash representing the balance of the principal amount and premium (if any) due on the Maturity Date.

DATED: _____

STERLING SHOES INC.

By: _____
Authorized Signatory

STERLING SHOES INC.

- and -

COMPUTERSHARE TRUST COMPANY OF CANADA

SCHEDULE "D" TO THE AMENDED AND RESTATED TRUST INDENTURE

Form of Notice of Conversion

SCHEDULE "D"

FORM OF NOTICE OF CONVERSION

CONVERSION NOTICE

TO: STERLING SHOES INC.

Note: All capitalized terms used herein have the meaning ascribed thereto in the Indenture mentioned below, unless otherwise indicated.

The undersigned registered holder of 6.50% Convertible Unsecured Subordinated Debentures bearing Certificate No. • irrevocably elects to convert such Debentures (or \$• principal amount thereof*) in accordance with the terms of the Indenture referred to in such Debentures and tenders herewith the Debentures, and, if applicable, directs that the Shares of Sterling Shoes Inc. issuable upon a conversion (net of applicable withholding taxes, if any) be issued and delivered to the person indicated below. (If Shares are to be issued in the name of a person other than the holder, all requisite transfer taxes must be tendered by the undersigned.)

Dated: _____
(Signature of Registered Holder)

(*) If less than the full principal amount of the Debentures, indicate in the space provided the principal amount (which must be \$1,000 or integral multiples thereof).

NOTE: If Shares are to be issued in the name of a person other than the holder, the signature must be guaranteed by a chartered bank, a trust company or by a member of an acceptable Medallion Guarantee Program. The Guarantor must affix a stamp bearing the actual words: "SIGNATURE GUARANTEED".

(Print name in which Shares are to be issued, delivered and registered)

Name: _____

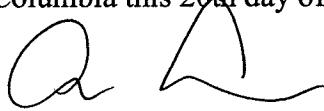
(Address) _____

(City, Province and Postal Code)

Name of guarantor: _____

Authorized signature:

This is **Exhibit "G"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of a stylized 'A' followed by a horizontal line.

A Commissioner for the taking Affidavits for
British Columbia

Sterling

STERLING SHOES LIMITED PARTNERSHIP

FOR IMMEDIATE RELEASE

SEPTEMBER 27, 2011

STERLING SHOES INC.
(TSX: SSI, *formerly Sterling Shoes Income Fund*)

STERLING ANNOUNCES UPDATE ON CONVERTIBLE DEBENTURES

Vancouver – September 27, 2011, Sterling Shoes Inc. (TSX: SSI) (“Sterling”) announced today that its Board of Directors has resolved that Sterling will not make the interest payment on its Unsecured Subordinated Convertible Debentures (“Convertible Debentures” – TSX:SSI.UN) that is due to be paid on October 31, 2011.

As previously reported, Sterling has reached an agreement with its senior lender, the Bank of Montreal, on an amended credit facility which includes, among other things, certain provision and covenants that must be met in order to retain the ability to maintain the interest payments required on the Convertible Debentures. Due to a continued challenging retail environment and the current cash flow situation of the Company, the Board of Directors of Sterling determined not to make the October 31, 2011 interest payments on its Convertible Debentures.

About Sterling Shoes Inc.

Sterling is a leading Vancouver-based footwear retailer offering a broad selection of private label and brand name shoes and accessories in five Canadian provinces through its five separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 162 stores (as at May 12, 2011) located in high-traffic, high visibility locations within enclosed shopping malls, on high streets and in strip malls. The Company currently employs over 1,100 employees. The Company’s shares are listed on the Toronto Stock Exchange under the symbol SSI. The Company’s convertible debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

For further information, please visit us at www.SterlingShoesInc.com, or contact:

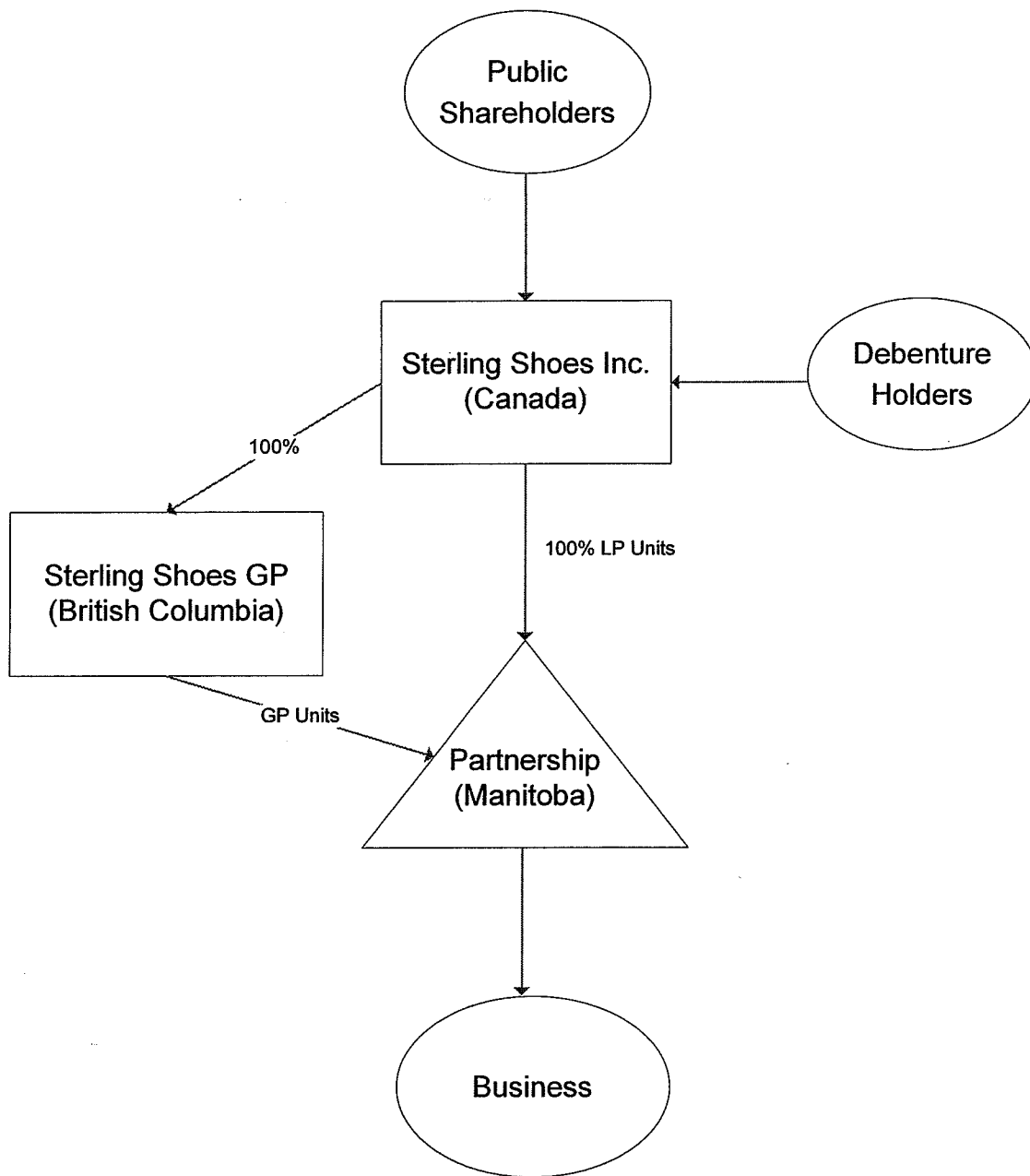
Daniel S. Gumprich Chief Financial Officer (604) 270-6114

Additional information about Sterling Shoes Inc. can be found in the disclosure documents filed by Sterling Shoes Inc. with the securities regulatory authorities, available at www.sedar.com.

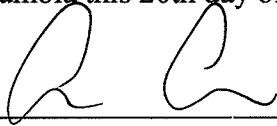
This is **Exhibit "H"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of a stylized 'A' followed by a cursive flourish.

A Commissioner for the taking Affidavits for
British Columbia



This is **Exhibit "I"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of two stylized, cursive letters that appear to be 'R' and 'L'.

A Commissioner for the taking Affidavits for
British Columbia

Consolidated Financial Statements of

STERLING SHOES INC.

(formerly Sterling Shoes Income Fund)

December 31, 2010

(Expressed in thousands of dollars)

Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 604-685-0395
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Sterling Shoes Inc. (formerly Sterling Shoes Income Fund)

We have audited the accompanying consolidated financial statements of Sterling Shoes Inc. (formerly Sterling Shoes Income Fund) (the "Company"), which comprise the consolidated balance sheet as at December 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 17, 2011

STERLING SHOES INC.
Consolidated Balance Sheets
(Expressed in thousands of dollars, except per share and number of share figures.)

	As at December 31, 2010	As at December 31, 2009
ASSETS		
CURRENT		
Cash	\$ 7,444	4,119
Accounts receivable	359	195
Inventory [note 3]	28,614	36,446
Prepaid expenses and deposits	336	187
	36,753	40,947
LEASEHOLDS AND EQUIPMENT [note 4]	17,969	19,595
INTANGIBLE ASSETS [note 5]	16,623	16,623
	\$ 71,345	\$ 77,165
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	16,225	15,006
Term loan [notes 6]	1,000	5,000
	17,225	20,006
FUTURE INCOME TAXES [note 12]	793	2,364
TERM LOAN [note 6]	3,500	-
CONVERTIBLE DEBENTURES [note 7]	23,264	22,520
DEFERRED LEASE INDUCEMENTS	1,653	2,057
SHAREHOLDERS' EQUITY	24,910	30,218
	\$ 71,345	\$ 77,165

COMMITMENTS [note 9]

On behalf of the Board of Directors

(signed) Rick Mahler
Director

(signed) Dave Alves
Director

See accompanying notes

STERLING SHOES INC.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in thousands of dollars, except per share and number of share figures.)

	Three-month period ended		Year ended	
	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)	December 31, 2010	December 31, 2009
SALES	\$ 39,348	\$ 41,195	\$ 127,028	\$ 131,170
COST OF SALES	22,065	18,011	72,173	69,127
GROSS MARGIN	17,283	23,184	54,855	62,043
EXPENSES				
Store and selling	12,998	12,664	46,416	46,785
General and administrative	2,690	2,383	8,297	7,616
Conversion costs	0	-	398	-
Amortization of leaseholds and equipment	790	863	3,535	3,401
	16,478	15,910	58,646	57,802
Income/(Loss) before interest, impairment and non-controlling interest	805	7,274	(3,791)	4,241
Interest and financing expense	657	669	2,612	2,637
Impairment of goodwill and intangible assets [note 5]	0	0	0	33,246
Unrealized loss on foreign exchange	256	0	256	0
Loss on disposal of leaseholds and equipment	-	367	220	627
INCOME / (LOSS) BEFORE TAXES	(108)	6,238	(6,879)	(32,269)
Future income taxes recovery [note 12]	1,571	-	1,571	4,636
NET INCOME / (LOSS) AND COMPREHENSIVE INCOME / (LOSS)	1,463	6,238	(5,308)	(27,633)
Basic net income/(loss) per share	\$ 0.22	\$ 0.94	\$ (0.80)	\$ (4.16)
Diluted net income/(loss) per share	0.21	0.82	(0.80)	(4.16)
Basic weighted average number of shares outstanding	6,641,860	6,641,860	6,641,860	6,641,860
Diluted weighted average number of shares outstanding	7,823,885	7,823,885	7,823,885	7,823,885

See accompanying notes

STERLING SHOES INC.
Consolidated Statements of Shareholders' Equity

For the year ended December 31, 2010

(Expressed in thousands of dollars, except per share and number of share figures.)

	Shareholders' capital [note 8]	Equity component of Debentures [note 7]	Accumulated earnings	Accumulated distributions	Accumulated deficit	Shareholders' equity
BALANCE, December 31, 2008	\$ 59,809	2,657	33,740	(36,800)	(3,060)	\$ 59,406
Net loss for the period	-	-	(27,633)	-	(27,633)	(27,633)
Distributions declared	-	-	-	(1,555)	(1,555)	(1,555)
BALANCE, December 31, 2009	\$ 59,809	2,657	6,107	(38,355)	(32,248)	\$ 30,218
Net loss for the period	-	-	(5,308)	-	(5,308)	(5,308)
BALANCE, December 31, 2010	\$ 59,809	2,657	799	(38,355)	(37,556)	\$ 24,910

See accompanying notes

STERLING SHOES INC.

Consolidated Statements of Cash Flows

(Expressed in thousands of dollars, except per share and number of share figures.)

	Three-month period ended		Year ended	
	December 31, 2010 (unaudited)	December 31, 2009 (unaudited)	December 31, 2010	December 31, 2009
OPERATING ACTIVITIES				
Net Income/ (Loss)	\$ 1,463	\$ 6,238	\$ (5,308)	\$ (27,633)
Items not involving cash				
Impairment of goodwill and intangible assets	-	-	-	33,246
Future income taxes recovery	(1,571)	0	(1,571)	(4,636)
Amortization of leaseholds and equipment	790	863	3,535	3,401
Loss on disposal of leaseholds and equipment	-	367	220	627
Amortization of deferred lease inducements	(86)	(11)	(404)	(550)
Accreted interest expense [note 7]	195	175	747	673
	791	7,632	(2,781)	5,128
Change in non-cash working capital balances related to operations				
Accounts receivable	931	456	(165)	690
Inventory [note 3]	8,646	6,560	7,832	3,445
Prepaid expenses and deposits	(2)	213	(149)	297
Accounts payable and accrued liabilities	(2,010)	(3,340)	1,219	55
	7,565	3,889	8,737	4,487
Cash provided by operating activities	8,356	11,521	5,956	9,615
INVESTING ACTIVITIES				
Acquisition of leaseholds and equipment	(423)	(346)	(2,131)	(3,626)
Lease inducements received	-	96	-	374
Cash used in investing activities	(423)	(250)	(2,131)	(3,252)
FINANCING ACTIVITIES				
Term loan [note 6]	(250)	(6,781)	(500)	(467)
Payment of distributions	-	(371)	-	(1,777)
Cash used in financing activities	(250)	(7,152)	(500)	(2,244)
CASH INFLOW DURING THE PERIOD	7,683	4,119	3,325	4,119
CASH, BEGINNING OF PERIOD	(239)	-	4,119	-
CASH, END OF PERIOD	\$ 7,444	\$ 4,119	\$ 7,444	\$ 4,119
Supplemental cash flow information				
Interest paid	\$ 659	\$ 906	\$ 1,866	\$ 1,963

See accompanying notes

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

1. NATURE OF OPERATIONS AND CONVERSION TO A CORPORATION

Sterling Shoes Inc. (the "Company"), through its wholly owned subsidiary, Sterling Shoes Limited Partnership ("Sterling Shoes LP"), a partnership established under the laws of the Province of Manitoba, operates Canadian retail stores in five provinces in shopping malls, high-streets and strip malls. The Company is a leading retailer offering a broad selection of private label and national brand name shoes and accessories through six separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes, Gia and Sterling Outlet.

Prior to July 1, 2010, these operations were owned by Sterling Shoes Income Fund, (the "Fund"). On July 1, 2010, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to an incorporated corporation (the "Conversion") pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). Pursuant to the Conversion, the Company acquired all of the outstanding units of the Fund ("Units"), in exchange for Common Shares, on the basis of one Common Share for each Unit. Other securities exercisable or exchangeable for Units were either exchanged for Common Shares or for securities exercisable for Common Shares, as applicable. As a result of the Conversion, the Company became the sole holder of the outstanding Units. On July 1, 2010, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, the Company on that date. The exchange of the units of the Fund to the Company was recorded at the carrying values of the Fund's assets and liabilities on July 1, 2010 in accordance with the continuity of interest method of accounting as the Company is considered to be a continuation of the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

These consolidated financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These consolidated financial statements include the accounts of the Company, and its direct 100% interest in Sterling Shoes LP. All material intercompany transactions have been eliminated upon consolidation.

(b) *Inventory*

The Company determines inventory cost based on a weighted average cost formula and values inventory at the lower of cost and net realizable value.

Incentives received from suppliers are treated as a reduction in the prices of the suppliers' products and are accounted for as a reduction in the related inventory.

Cost of sales is comprised of inventory and inventory-related costs only.

(c) *Financial Instruments*

Under CICA Handbook Section 3855 - "Financial Instruments - Recognition and Measurement", financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading ("HFT"), available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS financial assets that do not have quoted market prices in an active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in interest and other expenses, net for HFT financial assets, while changes in fair value between trade date and settlement date are reflected in other comprehensive income ("OCI") for AFS financial assets.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding.

Cash	Designated as held-for-trading
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Bank indebtedness	Other liabilities
Long-term debt	Other liabilities

Held-for-trading – HFT financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest and other expenses, net.

Financial liabilities designated at fair value ("FVO") are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value through interest and other expenses, net. These are accounted for in the same manner as HFT financial assets. The Company has not designated any non-derivative financial liabilities as FVO.

Held-to-maturity – HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. The Company does not have any HTM financial assets as at December 31, 2010.

Available-for-sale – AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS financial assets are carried at fair value with unrealized gains and losses included in OCI until realized when the cumulative gain or loss is transferred to the Statement of Income (Loss). The Company has not designated any financial assets as AFS.

Loans and receivables – Loans and receivables are accounted for at amortized cost.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

Other liabilities – Other liabilities (“OL”), are recorded at amortized cost and include all liabilities, other than derivatives or liabilities to which the FVO has been applied.

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 – “Financial Instruments – Disclosures” now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, to reflect the significance of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of the instruments.

Section 3862 requires that the classification of a financial instrument in the hierarchy be based on the lowest level of input that is significant to the measurement of fair value.

(d) *Income taxes*

The Company follows the asset and liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized for differences between the bases of assets and liabilities used for financial statement and income tax purposes. Future income tax assets and liabilities are determined based on the difference between the tax basis of the Company’s assets and liabilities and the amounts reported in the financial statements. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

(e) *Changes in accounting standards*

(i) *Adoption of New Accounting Standards*

The Company has not adopted any new accounting standards during the current year.

(ii) *Transition to International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

(f) *Measurement uncertainty*

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amount of revenues and expenses during the period. Areas requiring significant management estimates include the valuation of inventory, the valuation of intangible assets, the valuation of the liability and equity components of the convertible debentures, the recorded amounts of accrued liabilities, the estimation of future income taxes, and the useful life of leaseholds and equipment. Actual results could differ from these estimates.

(g) *Cash*

Cash consists of cash on hand and bank balances.

(h) *Leaseholds and equipment*

Leaseholds and equipment are recorded at cost. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Furniture and equipment	10 years
Computer equipment and software.....	5 years
Leasehold improvements	initial term of the lease or useful life if that is shorter

Amortization is pro-rated in the year of acquisition.

Computer equipment and software acquired for use by the Company comprises its purchase price and any directly attributable costs to prepare the asset for its intended use. These costs are amortized over the asset's expected useful life with amortization to commence when the asset is available for use.

Leaseholds and equipment are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

(i) *Intangible assets*

Identifiable intangible assets comprising store banners and private label brand names are carried at cost. These assets have been determined by management to have indefinite lives and are therefore not being amortized. These assets are reviewed at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from its expected use and eventual disposition.

If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds fair value.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

(j) *Deferred lease inducements*

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are deferred and amortized over the life of the initial lease term as a reduction of store and selling expenses.

(k) *Financing fees*

Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the instrument using the effective interest method, in the case of convertible debentures at an effective interest rate of 8.3%.

(l) *Revenue recognition*

Revenue is recognized at the point of sale, net of a provision for sales returns.

(m) *Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies are translated to the Canadian dollar equivalent at the rate of exchange at the balance sheet date. Transactions in foreign currencies are translated to the Canadian dollar equivalent at the rate of exchange in effect at the time of the transaction. Foreign currency gains and losses are included in the results of operations in the period in which they occur.

(n) *Net loss per Share*

Basic net loss per Share of the Company (a "Share") is calculated by dividing the net loss by the weighted average number of Shares outstanding during the reporting period. Diluted net loss per Share is calculated by dividing the net loss, adjusted for the interest expense on the Convertible Debentures (note 7), by the sum of the weighted average number of Shares outstanding used in the basic net loss per Share calculation and the number of Shares that would be issued assuming conversion of all Convertible Debentures. As at December 31, 2010, the Convertible Debentures were not included in the computation of diluted net income per Share for the twelve-month period ended December 31, 2010 because to do so would have been anti-dilutive.

(o) *Long-term incentive plan*

Under the terms of a long-term incentive plan ("LTIP") 10% to 25% of distributable cash in excess of an established threshold is allocated as between: (i) cash awards to participants who already hold significant ownership positions; and (ii) monies to be used by the plan trustee to purchase shares of the Company for other participants. The cost is accrued in the period when distributable cash exceeds the thresholds established by the LTIP and amortized to compensation expense over the vesting period of the applicable employee award.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

As at December 31, 2010, the Company did not accrue any liability in respect of the LTIP (2009 - \$nil). During the year ended December 31, 2010 the Company recorded \$50 variable compensation expense (2009 - \$313).

(p) *Derivative financial instruments*

Derivative financial instruments are utilized by the Company from time to time in the management of its foreign currency exposures. The Company's policy is to not utilize derivative financial instruments for trading or speculative purposes.

The Company does not use hedge accounting; derivatives are recorded at fair value with gains and losses recorded through the statement of earnings.

3. INVENTORY

December 31		2010	2009
Inventory at carrying value	\$	30,665	\$ 37,278
Obsolescence provision		(2,051)	(832)
Inventory at net realizable value	\$	28,614	\$ 36,446

The Company recorded an obsolescence provision of \$2.1 million (2009-\$0.8 million) when valuing inventory at its net realizable value.

4. LEASEHOLDS AND EQUIPMENT

December 31, 2010						December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value		Cost	Accumulated Amortization	Net Book Value	
Leasehold improvements	\$ 15,488	\$ (7,006)	\$ 8,482	\$	14,981	\$ (5,576)	\$ 9,405	
Furniture and equipment	11,949	(5,743)	6,206		11,704	(4,348)	7,356	
Computer equipment and software	5,423	(2,141)	3,282		4,470	(1,636)	2,834	
	\$ 32,860	\$ (14,890)	\$ 17,970	\$	31,155	\$ (11,560)	\$ 19,595	

As at December 31, 2010, the Company has invested \$2.2 million (2009 - \$1.4 million) in the development of a new enterprise resource planning (ERP) system. Amortization of the ERP system will take place when it is substantially complete and ready for productive use.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

5. INTANGIBLE ASSETS

	December 31, 2010	December 31, 2009
Store banners	\$ 10,005	\$ 10,005
Private label brand names	6,618	6,618
	\$ 16,623	\$ 16,623

At December 31, 2010 the Company determined that no impairment was required. In 2009, the Company determined that the fair value of the intangible assets was less than the book value, resulting in an impairment of \$33.2 million (including Goodwill \$0.8 million).

6. BANK INDEBTEDNESS

	December 31, 2010	December 31, 2009
Term loan	\$ 4,500	\$ 5,000

The Company has utilized \$4.5 million (2009 - \$5 million) of an available \$5 million term facility (the "Term Loan"). The Term Loan began amortizing upon renewal of the credit facilities, with repayment terms calling for quarterly principal payments of \$250,000, plus interest, to effect a 5 year amortization. The second payment was made on December 31, 2010. Interest, term, covenants and security are the same as for the Operating Loan, noted below. Certain covenants have been amended.

The Company has available a \$15 million, 3-year committed revolving loan (the "Operating Loan") due on July 31, 2013. The Operating Loan is available for working capital requirements, capital expenditures and for general corporate purposes. Advances bear interest at the lender's prime rate plus 1.25% to 2.75% or at the banker's acceptance rate plus 2.75% to 4.25% based on the ratio of debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. This loan is secured by a general security agreement covering all assets of Sterling Shoes LP.

7. CONVERTIBLE DEBENTURES

	December 31, 2010	December 31, 2009
Principal amount	\$ 25,000	\$ 25,000
Equity component	(2,657)	(2,657)
Accretion	1,400	920
Deferred financing fees, net of amortization	(479)	(743)
Convertible unsecured subordinated debentures	\$ 23,264	\$ 22,520

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

The convertible unsecured subordinated debentures (the "Debentures") bear interest at an annual rate of 6.5% payable semi-annually in arrears on October 31 and April 30 in each year. The maturity date for the Debentures is October 31, 2012.

The Debentures are convertible at any time at the option of the holders into shares ("Shares") of the Company at a conversion rate of approximately 47.281 Shares per \$1 principal amount of Debentures, which is equal to a conversion price of \$21.15 per Share. After October 31, 2010 and on or before October 31, 2011, the Company will have the right to redeem all or a portion of the Debentures equal to the principal amount plus accrued and unpaid interest, provided that the market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. After October 31, 2011, the Company will have the right to redeem all or a portion of the Debentures equal to the principal amount plus accrued and unpaid interest.

The Company allocated the proceeds of the Debentures between debt and equity based on the relative fair values of the debt and the conversion option, as determined by the residual valuation of the equity component. Under this approach, the liability component was valued first, and the difference between the proceeds of the Debentures and the fair value of the debt was assigned to the conversion option. The present value of the liability component was calculated using a discount rate of 9.2%, the estimated market interest rate for similar debentures having no conversion rights.

The conversion option was valued at \$2,657 at the date of issuance. The liability portion of the Debentures is being accreted to its face value over the term of the debt using the effective interest method, at an effective interest rate of 8.3% (2009 - 10.7%). Transaction costs consisting of commissions and professional fees related to the issuance of the Debentures amounted to \$1,231.

8. SHAREHOLDERS' CAPITAL

	Shares		Fund Units	
	Number	Amount \$	Number	Amount \$
Balance, December 31, 2009			6,641,860	59,809
Balance prior to conversion to corporate entity			6,641,860	59,809
Exchange of fund units for Common shares	6,641,860	59,809	(6,641,860)	(59,809)
Balance, December 31, 2010	6,641,860	59,809	-	-

Pursuant to the Conversion, the company is considered to be a continuation of the Fund and therefore the exchange of Fund Units for common Shares of the Company is recorded at the carrying values of the Fund's assets and liabilities on July 1, 2010, in accordance with the continuity of interest method of accounting."

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

The authorized capital of the Company consists of an unlimited number of common shares.

9. COMMITMENTS

(a) *Minimum rental commitments*

The Company has the following minimum rental commitments for premises, excluding percentage rent adjustments and operating expense assessments, over the next five fiscal years:

2011	\$	15,261
2012		15,281
2013		14,093
2014		12,924
2015		11,037
Thereafter		20,694
	\$	89,290

Certain of the operating leases provide for additional annual rentals based on store sales.

(b) *Letters of credit*

The Company had letters of credit outstanding on December 31, 2010 securing inventory purchase commitments totaling \$3.4 million (2009 - \$2.7 million). The last of these letters of credit expires on July 31, 2011 for \$1.5 million.

10. FINANCIAL INSTRUMENTS

(a) *Fair value*

Financial instruments consist of cash at fair value (which is a Level 1 input), accounts receivable, term loans, accounts payable, foreign exchange contracts, and the debentures. The fair values of all financial instruments, other than cash, the Debentures (Note 7), and the foreign exchange contracts, approximate their carrying values due to their short term or floating rate nature.

The fair value of the Debentures is determined by calculating its present value using the estimated market interest rate for loans with similar terms, conditions, and maturities. By using this valuation method, the estimated fair value of the Debentures at December 31, 2010 was \$21.9 million (2009 - \$19.9 million) compared to its carrying value of \$23.3 million (2009 - \$22.5 million). As the Debentures are other financial liabilities and are measured at amortized cost, no gain or loss has been recognized in net income relating to the difference between the Debentures' estimated fair value and carrying value.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities and commitments as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The following table shows the maturity dates for the Company's liabilities:

in \$000's	2011	2012	2013	2014	2015
Accounts payable and accrued liabilities	16,225				
Convertible Debentures		25,000			
Operating and Term Loans	1,000	1,000	2,500		
	<u>17,225</u>	<u>26,000</u>	<u>2,500</u>	<u>0</u>	<u>0</u>

The Company's future income tax obligation is discussed in Note 12, while its future obligations under operating leases are discussed in Note 9. Deferred lease inducements will not result in cash outflow for the Company.

The Company manages liquidity risk by managing its capital and debt structure, its cash flows, and its inventory levels. The Company monitors the cash flows generated from operations and evaluates on a regular basis whether it needs to access the capital and banking markets to meet its financial obligations.

(c) *Interest rate risk*

Interest rate risk is the risk that the Company's financial instruments or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk arises primarily from the Debentures, the Operating Loan, and the Term Loan. The interest rate on the Debentures is at a fixed rate (Note 7). The loans under the Operating Loan and Term Loan bear interest at a floating rate based on the Canadian dollar prime rate or on the bankers' acceptance rates plus, in each case, an applicable margin to those rates. Based on the average carrying value of these facilities, a fluctuation in interest rate of 1% would represent a \$45 change to the net loss for the year ended December 31, 2010 (2009 - \$89). The interest rate risk would be mitigated by income received on cash balances.

(d) *Foreign exchange risk*

Foreign exchange risk is the risk that the value of a financial asset or liability or commitment will fluctuate due to changes in foreign exchange rates. The Company's foreign exchange risk arises primarily from its inventory purchases. Substantially all footwear sold in Canada is manufactured outside of Canada. The cost of substantially all inventory purchases is exposed to currency fluctuations. During the year ended December 31, 2010, approximately 39.0% (2009- 49.2%) of product purchases were denominated in US dollars.

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

From time to time, the Company enters into contracts to manage the foreign exchange risk associated with anticipated purchases in US dollars. At December 31, 2010, the Company had forward foreign exchange contracts as follows:

Settlement dates	Face Value \$US	Average rate \$Cdn
January 2011	1,525	1.019
February 2011	1,525	1.020
March 2011	1,525	1.020
April 2011	1,525	1.023
May 2011	775	1.019
June 2011	475	1.010
July 2011	750	1.007
Aug 2011	750	1.008
Sept 2011	750	1.009
Oct 2011	475	1.014
Nov 2011	950	1.004
Dec 2011	450	1.002

As at December 31, 2010, the aggregate unrealized loss on these contracts was \$238 (2009 - \$70).

(e) *Credit risk*

Credit risk is the risk that customers on account are not able to discharge their obligations in due time. The Company is not exposed to material credit risk because it factors all of its receivables to a third party. The risk of loss is transferred entirely to this third party.

11. RELATED PARTY TRANSACTIONS

- (a) The Company leases its head office location from a company in which a director and officer of the Company has an interest. Rent expense recognized on this lease was \$306 for the year ended December 31, 2010 (2009 - \$296) and is included in general and administrative expenses in the statement of income.
- (b) The Company purchased equipment from a company in which a director and officer of the Company has an interest for \$141 during the year ended December 31, 2010 (2009 - \$170).

These transactions arose during the normal course of business and have been recorded at the exchange amount, which is the amount agreed upon by the related parties.

12. INCOME TAXES

For the months of January to June, (prior to the Conversion) the Fund was a unit trust for income tax purposes and, accordingly, the Fund was taxable only on any taxable income in those months

STERLING SHOES INC.

Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

not allocated to the unitholders. Any income tax obligations relating to the distributions are the obligations of the unitholders.

Commencing July 1, 2010, the Company and its subsidiaries are subject to tax at statutory rates. The Fund and the Company's effective income tax rate differs from the statutory income tax rate. The difference arises from the following items:

For the year ended December 31	2010
Earnings (loss) before income taxes	(6,879)
Income tax at statutory rates (29%)	(1,995)
Pre-conversion partnership income allocated to unrelated partners	61
Non-deductible expenses	82
Previously unrecognized future tax liability and other	281
Provision for (recovery of) future income taxes	(1,571)

The tax effected temporary differences comprising the future income tax are estimated as follows:

	Dec 31, 2010	Dec 31, 2009
Operating losses	\$ (704)	\$ -
Leasehold & improvements	(814)	-
Other temporary differences	-	(5)
Future income tax asset	(1,518)	(5)
Intangible Asset - store banners	1,251	1,426
Intangible asset - private label brand names	827	943
Other temporary differences	233	-
Future income tax liability	2,311	2,369
Net future income tax liability	\$ 793	\$ 2,364

In addition the Company has a capital loss of \$27 million. The related future tax asset of approximately \$3.4 million has not been recognized as the management is of the view that such asset would unlikely be realized in the future.

13. SEGMENTED INFORMATION

The Company operates in one industry segment; that being the retail footwear business, offering a broad selection of private label and brand name shoes and accessories.

14. CAPITAL DISCLOSURES

The Company's capital structure consisted of the following components at December 31, 2010: Shareholders' equity of \$24.9 million (2009 - \$30.2 million) and the Debentures of \$23.3 million (2009 - \$22.5 million). The Company's objectives when managing its capital is to maintain compliance with its bank covenants. The covenants include non-GAAP measures such as adjusted EBITDA. The Company was in compliance with its bank covenants at December 31, 2010.

STERLING SHOES INC.

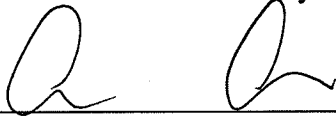
Notes to Consolidated Financial Statements

December 31, 2010

(Expressed in thousands of dollars, unless otherwise specified and except for per share amounts.)

The Company reviews its historical and expected operating results on a regular basis. This review includes consideration of economic conditions, including seasonality, and the competitive environment. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to its Shareholders, issue new Shares, or issue or reduce debt.

This is **Exhibit "J"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, appearing to be 'A. L.', written above a horizontal line.

A Commissioner for the taking Affidavits for
British Columbia

Interim Consolidated Financial Statements of

STERLING SHOES INC.

June 30, 2011

(Unaudited - Expressed in thousands of Canadian dollars)

STERLING SHOES INC.
Consolidated Statement of Financial Position
(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	As at June 30, 2011	As at December 31, 2010
ASSETS		
CURRENT		
Cash	\$ -	7,444
Accounts receivable	430	359
Inventory [note 5]	35,497	28,614
Prepaid expenses and deposits	399	336
	36,326	36,753
NON-CURRENT		
Leaseholds & Equipment [note 6]	18,085	17,969
Deferred Income Taxes [note 15]	577	-
Intangible Assets [note 7]	16,623	16,623
	35,285	34,592
	\$ 71,611	\$ 71,345
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Operating loan [note 8]	\$ 8,780	\$ -
Accounts payable and accrued liabilities	12,864	16,225
Term loan [note 8]	4,000	1,000
	25,644	17,225
NON-CURRENT		
Deferred Income Taxes [note 15]	-	793
Term Loan [note 8]	-	3,500
Convertible Debentures [note 9]	23,670	23,264
Deferred Lease Inducements	1,553	1,653
	25,223	29,210
SHAREHOLDERS' EQUITY		
Shareholders' capital	59,809	59,809
Equity component of Debentures [note 9]	2,657	2,657
Accumulated Deficit	(41,722)	(37,556)
	20,744	24,910
	\$ 71,611	\$ 71,345

COMMITMENTS [note 10]
SUBSEQUENT EVENTS [note 17]

On behalf of the Board of Directors

(signed) Rick Mahler
Director

(signed) Dave Alves
Director

See accompanying notes to the interim consolidated financial statements

STERLING SHOES INC.
Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Three-month period ended		Six-month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
SALES	\$ 24,313	\$ 28,606	\$ 46,324	\$ 55,461
COST OF SALES	10,998	15,234	23,257	28,571
GROSS MARGIN	13,315	13,372	23,067	26,890
EXPENSES				
Store and selling	10,527	11,057	20,749	22,303
General and administrative	2,232	2,361	4,469	4,004
Amortization of leaseholds and equipment	946	932	1,736	1,878
	13,705	14,349	26,954	28,085
Loss before interest, financing expense and disposal	(390)	(877)	(3,887)	(1,195)
Interest and financing expense	748	659	1,414	1,302
Unrealized (gain)/ loss on foreign exchange	(63)	-	83	-
Loss on disposal of leaseholds and equipment	-	218	162	218
NET LOSS BEFORE TAXES	(1,075)	(1,754)	(5,536)	(2,715)
Deferred income taxes recovery [note 15]	264	-	1,370	-
NET LOSS AND TOTAL COMPREHENSIVE LOSS	(811)	(1,754)	(4,166)	(2,715)
Basic and Diluted net loss per share	\$ (0.12)	\$ (0.26)	\$ (0.63)	\$ (0.41)
Basic weighted average number of shares outstanding	6,641,860	6,641,860	6,641,860	6,641,860
Diluted weighted average number of shares outstanding	7,823,885	7,823,885	7,823,885	7,823,885

See accompanying notes to the interim consolidated financial statements

STERLING SHOES INC.
Consolidated Statement of Changes in Equity

For the Six month period ended June 30, 2011

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Number of shares	Par value of shares	Shareholders' capital	Equity component of Debentures [note 9]	Accumulated deficit	Shareholders' equity
BALANCE, January 1, 2010	6,641,860	\$ 9.00	\$9,809	2,657	(32,248)	\$ 30,218
Net loss for the period	-	-	-	-	(2,715)	(2,715)
BALANCE, June 30, 2010	6,641,860	\$ 9.00	\$9,809	2,657	(34,963)	\$ 27,503
Net loss for the period	-	-	-	-	(2,593)	(2,593)
BALANCE, December 31, 2010	6,641,860	\$ 9.00	\$9,809	2,657	(37,556)	\$ 24,910
Net loss for the period	-	-	-	-	(4,166)	(4,166)
BALANCE, June 30, 2011	6,641,860	\$ 9.00	\$9,809	2,657	(41,722)	\$ 20,744

See accompanying notes to the interim consolidated financial statements

STERLING SHOES INC.

Consolidated Statements of Cash Flows

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Six-month period ended	
	June 30, 2011	June 30, 2010
OPERATING ACTIVITIES		
Net Loss	\$ (4,166)	\$ (2,715)
Items not involving cash		
Deferred income taxes recovery	(1,370)	-
Amortization of leaseholds and equipment	1,736	1,878
Loss on disposal of leaseholds and equipment	152	218
Amortization of deferred lease inducements	(170)	(226)
Accreted interest expense	404	363
	(3,414)	(482)
Change in non-cash working capital balances related to operations		
Accounts receivable	(71)	76
Inventory	(6,883)	(459)
Prepaid expenses and deposits	(63)	(70)
Accounts payable and accrued liabilities	(3,361)	(2,222)
	(10,378)	(2,675)
Cash (used in) / provided by operating activities	(13,792)	(3,157)
INVESTING ACTIVITIES		
Acquisition of leaseholds and equipment	(2,003)	(760)
Lease inducements received	71	-
Cash used in investing activities	(1,932)	(760)
FINANCING ACTIVITIES		
Term loan	(500)	-
Cash used in financing activities	(500)	-
CASH OUTFLOW DURING THE PERIOD	(16,224)	(3,917)
CASH, BEGINNING OF PERIOD	7,444	4,119
CASH, END OF PERIOD	\$ (8,780)	\$ 202
Supplemental cash flow information		
Interest paid	\$ 1,004	\$ 939

See accompanying notes to the interim consolidated financial statements

STERLING SHOES INC.

Notes to Interim Consolidated Financial Statements

June 30, 2011

(Unaudited - Expressed in thousands of Canadian dollars, unless otherwise specified and except for per share amounts.)

1. ORGANIZATION AND NATURE OF OPERATIONS

Sterling Shoes Inc. (the "Company") is an incorporated entity headquartered in Richmond, B.C., Canada. The head office, principal address and registered and records office of the Company are located at 2580 Viscount Way, Richmond, British Columbia, V6V 1N1.

The Company operates retail stores in five provinces in shopping malls, high-streets and strip malls, principally in Western Canada. The Company is a leading retailer offering a broad selection of private label and national brand name shoes and accessories through five separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes, and Gia.

Prior to July 1, 2010, these operations were owned by Sterling Shoes Income Fund, (the "Fund"). On July 1, 2010, the Fund was converted, on a tax deferred basis, from an open-ended limited purpose trust to a corporation (the "Conversion") pursuant to a plan of arrangement under the Business Corporations Act (British Columbia). Pursuant to the Conversion, the Company acquired all of the outstanding units of the Fund ("Units"), in exchange for Common Shares, on the basis of one Common Share for each Unit. As a result of the Conversion, the Company became the sole holder of the outstanding Units. On July 1, 2010, the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by the Company. The exchange of the units of the Fund to the Company was recorded at the carrying values of the Fund's assets and liabilities on July 1, 2010 in accordance with the continuity of interest method of accounting as the Company is considered to be a continuation of the Fund.

STERLING SHOES INC.

Notes to Interim Consolidated Financial Statements

June 30, 2011

(Unaudited - Expressed in thousands of Canadian dollars, unless otherwise specified and except for per share amounts.)

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS

We prepare our financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements are prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting ("IAS 34") and IFRS 1, First-Time Adoption of International Financial Reporting Standards ("IFRS 1"). Subject to certain transition elections disclosed in Note 4, we have consistently applied the same accounting policies in our opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on our reported balance sheet, comprehensive income and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are presented in Note 3 and are in accordance with IFRS. Any subsequent changes to IFRS that are given effect in our annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements. In previous periods, the Company prepared its interim consolidated financial statements in accordance with Canadian GAAP.

These interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 11, 2011.

These interim consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries. Wholly owned subsidiaries are entities in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All intercompany transactions have been eliminated.

Details of the Company's subsidiaries at June 30, 2011 are as follows:

<u>Name</u>	<u>Place of incorporation</u>	<u>Interest %</u>	<u>Principal activity</u>
Sterling Shoes LP	Manitoba, Canada	100%	Limited partner
Sterling Shoes GP Inc.	British Columbia, Canada	100%	General partner

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3. ACCOUNTING POLICIES

a) *Presentation currency and foreign currency translation*

Functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash. The majority of the Company's business is transacted in Canadian dollars and, accordingly, these interim consolidated financial statements have been measured and expressed in that currency.

Monetary assets and liabilities denominated in foreign currencies are translated to the Canadian dollar equivalent at the rate of exchange at the balance sheet date. Transactions in foreign currencies are translated to the Canadian dollar equivalent at the rate of exchange in effect at the time of the transaction. Foreign currency gains and losses are included in the statement of loss in the period in which they occur.

b) *Inventory*

The Company determines inventory cost based on a weighted average cost formula and values inventory at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Incentives received from suppliers are treated as a reduction in the prices of the suppliers' products and are accounted for as a reduction in the related inventory.

Cost of sales is comprised of inventory and inventory-related costs only.

c) *Financial Instruments*

Financial assets and financial liabilities are initially recognized at fair value including transaction costs. Their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets be classified either as FVTPL, available-for-sale ("AFS"), held-to-maturity ("HTM"), or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS financial assets that do not have a reliable measurable fair value.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding.

Cash	Fair value through profit and loss ("FVTPL")
Accounts receivable	Loans and receivables
Accounts payable	Other liabilities
Bank indebtedness	Other liabilities
Long-term debt	Other liabilities

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FVTPL financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest and other expenses, net.

Financial liabilities designated at FVTPL accounted for in the same manner as FVTPL financial assets. The Company has not designated any non-derivative financial liabilities as FVTPL.

Held-to-maturity – HTM financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost. The Company does not have any HTM financial assets as at March 31, 2011.

Available-for-sale – AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or FVTPL. AFS financial assets are carried at fair value with unrealized gains and losses included in other comprehensive income until realized when the cumulative gain or loss is transferred to the Statement of Income (Loss). The Company has not designated any financial assets as AFS.

Loans and receivables – Loans and receivables are accounted for at amortized cost.

Other liabilities – Other liabilities (“OL”), are recorded at amortized cost and include all liabilities, other than derivatives or liabilities to which the FVTPL has been applied.

d) Income Taxes

Deferred income taxes are accounted for using the asset and liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined based on the difference between the tax basis of the Company’s assets and liabilities and the amounts reported in the financial statements. Deferred tax assets or liabilities are calculated using currently enacted or substantially enacted tax rates that are expected to be in effect in the periods in which the differences are expected to be settled. The effect of a change in tax rates or tax legislation is recognized in the period of substantive enactment. Deferred tax assets are recognized when it is considered probable that there will be sufficient taxable income for them to be realized.

e) Use of Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amount of revenues and expenses during the period. Areas requiring significant management estimates include the valuation of inventory, the valuation of intangible assets, the valuation of the liability and equity components of the convertible unsecured subordinated debentures, the recorded amounts of

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accrued liabilities, the estimation of deferred income taxes, and the useful life of leaseholds and equipment. Actual results could differ from these estimates.

f) *Accounting Judgments*

In the process of selecting accounting policies and interpreting and applying guidance under IFRS, management made various judgments that can significantly impact the consolidated financial statements. Areas requiring significant management judgements include the identification of Cash Generating Units, and segments, as well as the determination of fair value as deemed cost for intangible assets on transition to IFRS and the assessment of the probability of realizing future tax assets.

g) *Cash*

Cash consists of cash on hand and bank balances.

h) *Leaseholds and equipment*

Leaseholds and equipment are recorded at cost. Amortization is provided on a straight-line basis over the following estimated useful lives of the assets:

Furniture and equipment	10 years
Computer equipment and software.....	5 years
Leasehold improvements	shorter of the initial term of the lease or useful life

Amortization is pro-rated in the year of acquisition.

Computer equipment and software acquired for use by the Company comprises its purchase price and any directly attributable costs to prepare the asset for its intended use. These costs are amortized over the asset's expected useful life with amortization to commence when the asset is available for use.

Leaseholds and equipment are reviewed for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from expected undiscounted future cash flows from their expected use and eventual disposition. If such assets are considered impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.

i) *Intangible assets*

Identifiable intangible assets, including store banners and private label brand names are carried at deemed cost, being the fair value amount of the assets as at December 31, 2010. These assets have been determined by management to have indefinite lives and are therefore not being amortized. These assets are reviewed at least annually for impairment or whenever events or changes in circumstances indicate the assets may be impaired. In performing a formal impairment assessment, the Company estimates the recoverable amount of the asset by performing a

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comparison of the asset's carrying value to the higher of fair value less costs to sell and value in use, which is defined as the present value of future cash flows expected to be derived from the asset in its current state. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the higher of fair value less costs to sell and value in use.

j) Deferred lease inducements

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are amortized over the life of the initial lease term as a reduction of store and selling expenses.

k) Transaction costs

Transaction costs attributable to financial instruments classified as other than FVTPL are included in the recognized amount of the related financial instrument and recognized over the life of the instrument using the effective interest rate method. The convertible debentures have an effective interest rate of 10.7%.

l) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received at the point of sale excluding discounts, sales tax and duty, and a provision for sales returns.

m) Net income (loss) per share

Basic net income (loss) per share of the Company is calculated by dividing the net income (loss) by the weighted average number of shares outstanding during the reporting period. Diluted net income (loss) per share is calculated by dividing the net income (loss), adjusted for the interest expense on the Convertible Debentures (Note 9), by the sum of the weighted average number of shares outstanding used in the basic net income (loss) per share calculation and the number of shares that would be issued assuming conversion of all Convertible Debentures. As at June 30, 2011 the Convertible Debentures were not included in the computation of diluted net loss per share for the three and six month periods ended June 30, 2011 because to do so would have been anti-dilutive.

n) Long-term incentive plan

Under the terms of a long-term incentive plan ("LTIP") the Board may grant, at its discretion, LTIP rights to employees or non-employees who are, at the time of such grant, providing service to the Company. The grant of an LTIP right will be based on the performance during the prior year as determined and approved by the Board.

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LTIP shares will vest on the 3rd anniversary of the purchase of shares which in the meantime will be held by the LTIP plan trustee. The cost is expensed evenly over the three year vesting period. As at June 30, 2011, the Company did not accrue any liability in respect of the LTIP (2010 - \$nil). During the three and six month periods ended June 30, 2011 the Company recorded \$16.7 and \$33.3 compensation expense (2010 - \$nil and \$nil).

o) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The Company has recognized no such provisions in these interim consolidated financial statements.

4. ADOPTION OF INTERNATIONAL REPORTING STANDARDS ("IFRS")

These interim consolidated financial statements comply with IFRS, including the application of IFRS 1 First-Time Adoption of International Financial Reporting Standards.

IFRS 1 First-Time Adoption of International Financial Reporting Standards

Adoption of IFRS requires the application of IFRS 1, "First-time Adoption of International Financial Reporting Standards", which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS.

Elections upon first time adoption of IFRS:

The following are the optional exemptions available under IFRS 1 that the Company applied in the conversion from Canadian GAAP to IFRS.

Fair value or revaluation as deemed cost

IFRS 1 provides an option to allow a first-time IFRS adopter to elect to use the amount determined under a previous GAAP revaluation as the deemed cost of intangible assets so long as the revaluation was broadly comparable to fair value under IFRS. Management considers the September 30, 2009 Canadian GAAP impairment of the carrying value of our intangible assets, specifically the store banners and private label brand names, as a "revaluation broadly comparable to fair value"; the Company has elected that amount to be deemed IFRS cost as of that date. The IFRS carrying value of those intangible assets on transition to IFRS is therefore consistent with the Canadian GAAP carrying value on the transition date.

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Borrowing Costs

IAS 23 "Borrowing Costs" requires capitalization of eligible borrowing costs directly attributable to the acquisition or construction of qualifying assets. Under Canadian GAAP, the Company's accounting policy was to expense interest costs in connection with development activity. A first-time adopter may elect to apply the transitional provisions prescribed by IAS 23, and thereby be exempt from having to apply the standard to past transactions. The Company has elected to utilize this exemption, and will therefore apply IAS 23 on a strictly prospective basis from the date of transition to IFRS (meaning for eligible projects with a commencement date after January 1, 2010).

Share-Based Payments

IFRS 1 permits the application of IFRS 2 "Share-Based Payments" only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by January 1, 2010.

Business Combination

IFRS 1 provides an option to apply IFRS 3, Business Combinations, ("IFRS 3") on a full retrospective basis or prospectively from the transition date onwards. The full retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company has elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to the transition date and such business combinations have not been restated.

Mandatory Exceptions under IFRS

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the transition date are consistent with its Canadian GAAP estimates as at that date.

Financial Statement Impact on Transition to IFRS

There are no adjustments to balances in the Company's financial statements on transition from Canadian GAAP to IFRS as at January 1, 2010, nor are there any adjustments to financial statement balances and results as at and for the year ended December 31, 2010. There are, however, some financial statement presentation and disclosure changes on adoption of IFRS, particularly regarding note disclosure. While there are no adjustments to financial statement balances on transition to IFRS, management has modified some of its accounting policies to conform with IFRS requirements.

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5. INVENTORY

		June 30, 2011	December 31, 2010
Inventory at carrying value	\$	35,856	\$ 30,665
Obsolescence provision		(359)	(2,051)
Inventory at lower of cost or net realizable value	\$	35,497	\$ 28,614

6. LEASEHOLDS AND EQUIPMENT

		Leasehold Improvements		Furniture and Equipment		Computer Equipment and Software		Total
Balance at December 31, 2010	\$	15,488	\$	11,948	\$	5,423	\$	32,859
Additions		570		311		1,123		2,004
Disposals		(104)		(125)		-		(229)
Cost at June 30, 2011		15,954		12,134		6,546		34,634
Accumulated depreciation at December 31, 2010		(7,006)	\$	(5,743)	\$	(2,141)		(14,890)
Retirements		36		42		-		78
Depreciation/depletion		(746)		(582)		(409)		(1,736)
Accumulated Depreciation at June 30, 2011	\$	(7,716)	\$	(6,282)	\$	(2,550)	\$	(16,548)
Net book value at June 30, 2011	\$	8,237	\$	5,852	\$	3,996	\$	18,085

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7. INTANGIBLE ASSETS

	June 30, 2011	December 31, 2010
Store banners	\$ 10,005	\$ 10,005
Private label brand names	6,618	6,618
	\$ 16,623	\$ 16,623

At June 30, 2011 the Company determined that no impairment was required.

8. BANK INDEBTEDNESS

	June 30, 2011	December 31, 2010
Term loan	\$ 4,000	\$ 4,500

The Company has a \$4.0 million (December 31, 2010 - \$4.5 million) term facility (the "Term Loan"). The Term Loan began amortizing upon renewal of the credit facilities in July 2010, with repayment terms calling for quarterly principal payments of \$250,000, plus interest, to effect a 5 year amortization. The fourth payment was made on June 30, 2011. Interest, term, and security are the same as for the Operating Loan, noted below.

The Company has a \$15 million, 3-year committed revolving loan (the "Operating Loan") due on July 31, 2013. The Operating Loan is available for working capital requirements, capital expenditures and for general corporate purposes. Advances bear interest at the lender's prime rate plus 1.25% to 2.75% or at the banker's acceptance rate plus 2.75% to 4.25% based on the ratio of debt to earnings before interest, taxes, depreciation and amortization, calculated on a quarterly basis. This loan is secured by a general security agreement covering all assets of Sterling Shoes LP.

See note 17 "Subsequent Events" for details on the replacement of the Company's credit facilities.

9. CONVERTIBLE DEBENTURES

	June 30, 2011	December 31, 2010
Principal amount	\$ 25,000	\$ 25,000
Equity component	(2,657)	(2,657)
Accretion	1,660	1,400
Deferred financing fees, net of amortization	(333)	(479)
Convertible unsecured subordinated debentures	\$ 23,670	\$ 23,264

The convertible unsecured subordinated debentures (the "Debentures") bear interest at an annual rate of 6.5% payable semi-annually in arrears on October 31 and April 30 in each year. The maturity date for the Debentures is October 31, 2012.

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The Debentures are convertible at any time at the option of the holders into shares ("Shares") of the Company at a conversion rate of approximately 47.281 Shares per \$1 principal amount of Debentures, which is equal to a conversion price of \$21.15 per Share. After October 31, 2010 and on or before October 31, 2011, the Company will have the right to redeem all or a portion of the Debentures equal to the principal amount plus accrued and unpaid interest, provided that the market price on the date on which the notice of redemption is given is not less than 125% of the conversion price. After October 31, 2011, the Company will have the right to redeem all or a portion of the Debentures equal to the principal amount plus accrued and unpaid interest.

The Company allocated the proceeds of the Debentures between debt and equity based on the relative fair values of the debt and the conversion option, as determined by the residual valuation of the equity component. Under this approach, the liability component was valued first, and the difference between the proceeds of the Debentures and the fair value of the debt was assigned to the conversion option. The present value of the liability component was calculated using a discount rate of 9.2%, the estimated market interest rate for similar debentures having no conversion rights.

The conversion option was valued at \$2,657 at the date of issuance. The liability portion of the Debentures is being accreted to its face value over the term of the debt using the effective interest method, at an effective interest rate of 10.7%. Transaction costs consisting of commissions and professional fees related to the issuance of the Debentures amounted to \$1,231.

10. COMMITMENTS

(a) Minimum rental commitments

The Company has the following minimum rental commitments for premises, excluding percentage rent adjustments and operating expense assessments, for the remainder of the current fiscal year and over the next four fiscal years:

2011	\$	8,287
2012		15,312
2013		14,288
2014		13,165
2015		11,785
Thereafter		23,169
	\$	86,006

Certain of the operating leases provide for additional annual rentals based on store sales.

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(b) *Letters of credit*

The Company had letters of credit outstanding on June 30, 2011 securing inventory purchase commitments totaling \$3.6 million (December 31, 2010 - \$3.4 million and January 1, 2010 - \$2.7 million). The last of these letters of credit expires on December 31, 2011 for \$1.5 million.

11. FINANCIAL INSTRUMENTS

(a) *Fair value*

Financial instruments consist of cash at fair value, accounts receivable, term loans, accounts payable, foreign exchange contracts, and the debentures. The fair values of all financial instruments, other than cash, the Debentures (Note 9), and the foreign exchange contracts, approximate their carrying values due to their short term or floating rate nature.

Cash is stated at fair value. The fair value of the Debentures is determined by calculating its present value using the estimated market interest rate for loans with similar terms, conditions, and maturities. By using this valuation method, the estimated fair value of the Debentures at June 30, 2011 was \$22.0 million (December 31, 2010 - \$21.9 million) compared to its carrying value of \$23.7 million (December 31, 2010 - \$23.3 million). As the Debentures are other financial liabilities and are measured at amortized cost, no gain or loss has been recognized in net income relating to the difference between the Debentures' estimated fair value and carrying value.

(b) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities and commitments as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The following table shows the maturity dates for the Company's liabilities:

in \$000's	2011	2012	2013	2014	2015
Operating loan	8,780				
Accounts payable and accrued liabilities	12,864				
Convertible Debentures		25,000			
Term Loan	4,000				
	25,644	25,000	0	0	0

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The Company's future obligations under operating leases are discussed in Note 10. Deferred lease inducements will not result in cash outflow for the Fund.

The Company manages liquidity risk by managing its capital and debt structure, its cash flows, and its inventory levels. The Company monitors the cash flows generated from operations and evaluates on a regular basis whether it needs to access the capital and banking markets to meet its financial obligations. The Company is actively exploring the re-financing options available for the repayment of the Convertible Debentures.

(c) *Interest rate risk*

Interest rate risk is the risk that the Company's financial instruments or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk arises primarily from the Debentures, the Operating Loan, and the Term Loan. The interest rate on the Debentures is at a fixed rate (Note 9). The loans under the Operating Loan and Term Loan bear interest at a floating rate based on the Canadian dollar prime rate or on the bankers' acceptance rates plus, in each case, an applicable margin to those rates. Based on the average carrying value of these facilities, a fluctuation in interest rate of 1% would represent a \$10.5 and \$21.7 change to the net loss for the three-month and six-month periods ended June 30, 2011 (2010 - \$12.5 and \$25), respectively. The interest rate risk would be mitigated by income received on any cash balances.

(d) *Foreign exchange risk*

Foreign exchange risk is the risk that the value of a financial asset or liability or commitment will fluctuate due to changes in foreign exchange rates. The Company's foreign exchange risk arises primarily from its inventory purchases. Substantially all footwear sold in Canada is manufactured outside of Canada and hence, the cost of substantially all inventory purchases is exposed to currency fluctuations. During the three-month and six-month periods ended June 30, 2011, approximately 24% and 26% (2010- 43% and 43%) of product purchases were denominated in US dollars.

From time to time, the Company enters into contracts to manage the foreign exchange risk associated with anticipated purchases in US dollars. At June 30, 2011, the Company had forward foreign exchange contracts as follows:

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Settlement dates	Face Value \$US	Average rate \$Cdn
July 2011	1,820	0.995
Aug 2011	1,820	0.996
Sept 2011	1,820	0.996
Oct 2011	1,545	0.995
Nov 2011	2,020	0.995
Dec 2011	1,100	0.996
Jan 2012	1,000	0.977
Feb 2012	2,000	0.971
Mar 2012	1,500	0.968
Apr 2012	500	0.964
May 2012	500	0.964
Jun 2012	500	0.964
Jul 2012	500	0.964

As at June 30, 2011, the cumulative unrealized loss on these contracts was \$344 (2010 - \$251 gain) which is included in accounts payable and accrued liabilities in the consolidated statement of financial position.

(e) *Credit risk*

Credit risk is the risk that customers on account are not able to discharge their obligations in due time. The Company is not exposed to material credit risk because it factors all of its receivables to a third party. The risk of loss is transferred entirely to this third party.

12. MANAGEMENT OF CAPITAL

The Company's capital structure consisted of the following components at June 30, 2011: Shareholders' equity of \$20.3million (2010 - \$27.5 million) and the Debentures of \$23.7 million (2010 - \$22.9 million). The Company's objectives when managing its capital is to maintain compliance with its bank covenants. The covenants include non-GAAP measures such as adjusted EBITDA. The Company was in compliance with its bank covenants at June 30, 2011.

The Company reviews its historical and expected operating results on a regular basis. This review includes consideration of economic conditions, including seasonality, and the competitive environment. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to its shareholders, issue new shares, or issue or reduce debt.

See note 17 "Subsequent Events" for replacement of the Company's credit facilities.

13. RELATED PARTY TRANSACTIONS

STERLING SHOES INC.

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- (a) The Company leases its head office from a company in which a director and officer of the Company has an interest. Rent expense recognized on this lease was \$79 and \$158 for the three-month and six-month periods ended June 30, 2011 (2010 - \$74 and \$148) and is included in general and administrative expenses in the consolidated statement of loss and comprehensive loss.
- (b) The Company purchased equipment from a company in which a director and officer of the Company has an interest for \$29 and \$75 during the three-month and six-month periods ended June 30, 2011 (2010 - \$7 and \$13).

These transactions arose during the normal course of business and have been recorded at the exchange amount, which is the amount agreed upon by the related parties.

14. KEY MANAGEMENT COMPENSATION

Remuneration of directors and key management personnel comprises:

	Three-month period ended		Six-month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Short-term benefits	\$ 465	\$ 296	\$ 880	\$ 607
	\$ 465	\$ 296	\$ 880	\$ 607

Short-term benefits comprise salaries, bonuses and directors' fees.

15. INCOME TAXES

Prior to the conversion to incorporated status on July 1, 2010, Sterling was a unit trust for income tax purposes and, accordingly, was taxable only on any taxable income not allocated to the unitholders. Any income tax obligations relating to the distributions were the obligations of the unitholders. Commencing July 1, 2010, the Company is subject to tax at statutory rates.

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(a) *Income tax expense:*

	Three-month period ended	Six-month period ended
	June 30, 2011	June 30, 2011
Current tax expense		
Current period	\$ -	\$ -
Adjustment to prior year	-	-
	\$ -	\$ -
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	\$ (264)	\$ (1,370)
Other		
	\$ (264)	\$ (1,370)
Total income tax expense (recovery)	\$ (264)	\$ (1,370)

The tax rate used in the calculations above is the corporate tax rate of 26.5% payable by corporate entities on taxable profits under tax laws in Canada.

(b) *Reconciliation of the effective tax rate:*

Income tax expense differs from the amounts that would be obtained by applying the Canadian statutory income tax rate to income before income taxes. These differences are as follows:

	Three-month period ended	Six-month period ended
	June 30, 2011	June 30, 2011
Loss before income taxes	\$ (1,075)	\$ (5,536)
Income tax at statutory rates (26.5%)	(285)	(1,467)
Non-deductible expenses	4	9
Change in deferred income tax on application of future enacted rates	16	83
Other	1	5
Recovery of deferred income taxes	\$ (264)	\$ (1,370)

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(c) Deferred tax assets and liabilities:

- (i) The tax effect of temporary differences that give rise to deferred income tax liabilities and deferred income tax assets are as follows:

	June 30, 2011	December 31, 2010
Operating losses	\$ (1,574)	\$ (704)
Leasehold & improvements	(975)	(814)
Other temporary differences	(105)	-
Deferred income tax asset	(2,654)	(1,518)
Intangible Asset - store banners	1,251	1,251
Intangible asset - private label brand names	827	827
Other temporary differences	-	233
Deferred income tax liability	2,078	2,311
Net deferred income tax (asset)/liability	\$ (577)	\$ 793

In addition the Company has a capital loss of \$27 million. The related future tax asset of approximately \$3.4 million has not been recognized as the management is of the view that such asset would unlikely be realized in the future.

16. SEGMENTED INFORMATION

The Company operates in one industry segment; that being the retail footwear business, offering a broad selection of private label and brand name shoes and accessories.

17. SUBSEQUENT EVENTS

We have reached agreement in principle with the Bank of Montreal, to amend our Operating Loan and Term Loan, subject to final documentation (the "Amended Facility"). The Amended Facility will be made on a demand basis and will provide a maximum aggregate availability of \$27 million declining to \$20 million by October 31, 2011.

Loans under the Amended Facility are pre-payable without any penalties and bear interest at a floating rate based on the Canadian dollar prime rate rates plus an applicable margin to those rates. The Amended Facility is secured by a general security agreement covering all assets of Sterling Shoes LP.

The Amended Facility is subject to customary terms and conditions, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lender, and to customary financial covenants, including the maintenance of a minimum senior fixed charge coverage ratio. The Amended Facility also requires us to meet certain conditions in order to maintain interest payments on the Convertible Debentures.

STERLING SHOES INC.

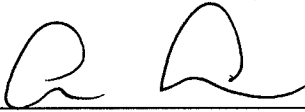
Notes to Interim Consolidated Financial Statements

June 30, 2011

(Unaudited - Expressed in thousands of Canadian dollars, unless otherwise specified and except for per share amounts.)

The Amended Facility is intended to be a bridge to a full asset-backed lending facility (the "ABL Facility"). We are currently in negotiations with the Bank of Montreal regarding the terms for the ABL Facility.

This is **Exhibit "K"** referred to in the affidavit of Daniel Gumprich made before me at Vancouver, British Columbia this 20th day of October 2011.

A handwritten signature in black ink, consisting of two stylized, cursive letters that appear to be 'R' and 'A'.

A Commissioner for the taking Affidavits for
British Columbia

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership

Consolidated Cash Flow Forecast

For the Eleven Week Period from October 16 to December 31, 2011

(CDN \$000's)

Week	For the Week ending															1-11												
Notes	Actual	1	2	3	4	5	6	7	8	9	10	11	Total		Total (incl. Actual)													
	15-Oct	22-Oct	29-Oct	5-Nov	12-Nov	19-Nov	26-Nov	3-Dec	10-Dec	17-Dec	24-Dec	31-Dec																
Total Sales Receipts (incl. HST)																												
2	\$	2,816	\$	2,648	\$	2,286	\$	2,232	\$	2,587	\$	2,542	\$	2,693	\$	3,062	\$	4,302	\$	30,624	\$	33,440						
Disbursements																												
3		(400)		(547)		(921)		(631)		(387)		(184)		(242)		(90)		(349)		(559)		(153)		(377)		(4,440)		(4,840)
4		(296)		-		(602)		(166)		(810)		(263)		(600)		(165)		(857)		(237)		(753)		(168)		(4,621)		(4,917)
5		-		-		-		(1,650)		(75)		-		-		(1,650)		(75)		-		-		(625)		(3,450)		(3,450)
6		-		-		-		(100)		-		-		-		(430)		-		-		-		-		(1,155)		(1,155)
7		-		-		(200)		-		-		-		-		-		-		-		-		-		(200)		(200)
8		-		-		(513)		(341)		-		-		-		-		-		-		-		-		(854)		(854)
9		(303)		(131)		(182)		(288)		(183)		(238)		(182)		(232)		(209)		(293)		(293)		(1,952)		(4,183)		(4,486)
Total Disbursements																												
		(999)		(678)		(2,418)		(3,176)		(1,455)		(685)		(1,024)		(2,567)		(1,490)		(1,089)		(1,199)		(3,122)		(18,903)		(19,902)
Cash Flow from Operations																												
		1,817		1,982		230		(890)		777		1,902		1,862		159		1,052		1,604		1,863		1,180		11,721		13,538
Professional fees																												
10		(114)		(326)		(332)		(315)		(233)		(171)		(166)		(144)		(138)		(116)		(111)		(133)		(2,185)		(2,299)
Interest / Forbearance fee																												
11		(75)		(84)		-		-		-		-		(82)		-		-		-		-		(66)		(307)		(307)
Term Loan																												
		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Net Cash Flow																												
		1,703		1,581		(186)		(1,205)		544		1,731		1,614		15		914		1,488		1,752		981		9,229		10,932
Bank Position																												
Opening Bank Exposure																												
		(16,146)		(14,443)		(12,862)		(13,048)		(14,253)		(13,709)		(11,978)		(10,364)		(10,349)		(9,435)		(7,947)		(6,195)		(14,443)		(16,146)
Closing Bank Position																												
		(14,443)		(12,862)		(13,048)		(14,253)		(13,709)		(11,978)		(10,364)		(10,349)		(9,435)		(7,947)		(6,195)		(5,214)		(5,214)		(5,214)
Letters of Credit																												
Opening balance																												
12	\$	(2,411)	\$	(2,344)	\$	(2,344)	\$	(2,344)	\$	(2,344)	\$	(2,344)	\$	(2,344)	\$	(2,344)	\$	(3,094)	\$	(3,844)	\$	(3,844)	\$	(4,344)	\$	(2,344)		(2,411)
Opened																												
12		-		(130)		(130)		(130)		(130)		(130)		(130)		(881)		(750)		-		(500)		-		(2,911)		(2,911)
Drawn																												
12		67		130		130		130		130		130		130		131		-		-		-		1,500		2,411		2,478
Closing Letters of Credit																												
		(2,344)		(2,344)		(2,344)		(2,344)		(2,344)		(2,344)		(2,344)		(3,094)		(3,844)		(3,844)		(4,344)		(2,844)		(2,844)		(2,844)
Total Bank Position																												
	\$	(16,787)	\$	(15,206)	\$	(15,392)	\$	(16,597)	\$	(16,053)	\$	(14,322)	\$	(12,708)	\$	(13,443)	\$	(13,279)	\$	(11,791)	\$	(10,539)	\$	(8,058)	\$	(8,058)		(8,058)

Date

Daniel Gumprih
Chief Financial Officer

Notes:
See following page.

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
Consolidated Cash Flow Forecast
For the Eleven Week Period from October 16 to December 31, 2011

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 Cash receipts are based on estimated sales for the remainder of 2011. These estimates were calculated using actual weekly sales for 2010 with appropriate adjustments to reflect the recent sales activities at the Company's stores and the sale of excess inventory which took place in October 2010. Cash receipts also assume that the Company will continue to purchase inventory throughout the period. Cash receipts include HST collected.
- 3 Payments to vendors are based on the expected delivery dates for purchase orders currently open.
- 4 Payroll payments are based on recent payroll expenses with appropriate adjustments for the expected increased sales activity during the December 2011 holiday season. These amounts include payroll withholding taxes and other employee related expenses.
- 5 Rent payments are based on ongoing monthly lease obligations to landlords. The above noted forecast assumes that all stores remain open during the 11 week period.
- 6 Sales tax payments are based on the sales tax collected and net of input tax credits based on an 11% effective HST/GST rate across all provinces in which the Company operates.
- 7 Deposits include additional security deposits for suppliers of utility services.
- 8 Pre-filing payments include among other things, customs' brokerage and freight payments to suppliers which are expected to be paid in order that goods can be released.
- 9 Other expenses include selling, general and administrative expenses. These expenses include travel and promotion, recurring professional fees (audit and tax), head office rent and communication expenses and insurance. These estimates have been forecast based on recent levels of monthly expenses and assumed to be spread evenly across each month and paid each week. The week of December 31 includes the drawdown of a \$1.5m standby letter of credit which expires on 31 December 2011.
- 10 Professional fees relating to the filing are based on estimates provided by advisors of the Company and the secured lender for consulting and legal services as well as those of the monitor.
- 11 Interest and forbearance fees include bank interest and fees relating to the forbearance agreement recently entered into with Bank of Montreal.
- 12 Letters of credit are based on those currently open and as well as new letters of credit which may be required to place future orders.