

This is the 1<sup>st</sup> affidavit of  
Peter Gerhardt in this case and was  
made on April 17, 2012

No. S-117081  
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

IN THE MATTER OF THE *CANADA BUSINESS CORPORATIONS ACT*, R.S.C. 1985,  
c. C-44

AND

IN THE MATTER OF STERLING SHOES INC. and STERLING SHOES GP INC.

PETITIONERS

**AFFIDAVIT**

I, Peter Gerhardt, of the city of Toronto, in the province of Ontario, AFFIRM THAT:

1. I am the Chief Financial Officer of Town Shoes Limited ("**Town**") 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 such information to be true.
2. I am authorized to make this affidavit on behalf of Town.
3. I submit this Affidavit in support of a motion (the "**Assignment Motion**") that I understand will be brought by Sterling Shoes GP Inc., Sterling Shoes Inc., and Sterling Shoes Limited Partnership (collectively, "**Sterling**") requesting that certain contracts be

assigned to Town pursuant that certain Asset Purchase Agreement dated April 16 (the “**Purchase Agreement**”),<sup>1</sup> between Sterling, Town, and Alvarez & Marsal Canada Inc. (in its capacity as Monitor) and section 11.3 of the *Companies’ Creditors Arrangement Act* (Canada), and for no other or improper purpose. Specifically, this Affidavit demonstrates that Town would be able to perform the obligations under the Contracts (which term, for greater certainty, includes the Real Property Leases) in accordance with the Purchase Agreement should this Court approve the Assignment Motion.

4. Town is the proposed assignee of the Contracts pursuant to the terms of Purchase Agreement. I understand that in addition to seeking this Court’s approval of the Assignment Motion, Sterling will concurrently be seeking this Court’s approval of the Purchase Agreement and a vesting order transferring the Assets to Town free and clear of all liens, claims, and encumbrances (other than those permitted under the Purchase Agreement). An order approving the Assignment Motion and a vesting order are conditions to closing under the Purchase Agreement.

5. Town is headquartered in Toronto and is Canada’s leading branded footwear specialty retailer with 118 retail stores across the country. Leonard Simpson opened the first Town Shoes store in 1952 in Toronto and today the company has 40 Town Shoes stores in major mall and street front locations across the country. In 1994, under the direction of Town’s Chief Executive Officer, Alan Simpson, the company opened its first big box store in Heartland Centre in Mississauga and today the company operates 73 Shoe Company stores primarily in power centres. In 2010, Town acquired the exclusive license to operate stores in Canada, excepting the Province of Quebec, for Skechers, the second most recognized footwear brand in the United States, with 5 stores opened to date.

6. On February 14, 2012, a controlling interest in Town was acquired by two client entities of the Alberta Investment Management Corporation (“**AIMCo**”) together with two limited partnerships controlled by Callisto Capital (GP) III Inc. (“**Callisto**”). There was no change to the management team of Town as a result of the acquisition and the Simpson family retained a significant interest in Town after this acquisition. I believe

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<sup>1</sup> All capitalized terms used herein but not otherwise defined shall have the meanings ascribed to such terms in the Purchase Agreement.

that Callisto and AIMCo are committed to growing Town's business and have capitalized the company with sufficient resources to achieve this objective.

7. Members of Town's senior management team are among the most experienced professionals in footwear retail in Canada. For example, Lewis Feinstein, Chief Operating Officer, The Shoe Company and Ron King, Chief Merchandising Officer, each have over 15 years experience with Town and over 30 years experience in Canadian retail. Mr. Simpson and myself each have been part of the Town senior management team for over 25 years. Together, Town's management team has a proven track record of success and honouring its obligations, and is one of the reasons why Town's stores are amongst the most productive stores in the shopping centres in which they are located.

8. Town prides itself on its excellent relationship with landlords. Working with outside advisors and with Mr. Simpson, I have responsibility to negotiate Town's leases as well as any amendments or renewals thereto. As a result of my experience, I understand the necessity of honouring commitments and working constructively with landlords to facilitate profitable growth. To the best of my knowledge, Town is not in default of its obligations under any contract it is party to, including any real property lease.

9. Town leases premises and has longstanding relationships with several of the landlords who own certain of the Leased Premises subject to the Real Property Leases. I believe that if the Assignment Motion and Purchase Agreement are approved, and the Contracts assigned to Town, that Town would perform its obligations thereunder.


10. Town's management team has reviewed the operations and financial performance of Sterling and is confident that it can continue to profitably operate the stores represented by the Real Property Leases, and can meet the obligations to the landlords thereunder. This analysis included numerous stores visits by members of Town's senior management team, detailed review of the financial statements on a store-by-store basis, discussions with Sterling's management team and in-depth financial due diligence performed by KPMG LLP on behalf of Town. In addition, the restructuring efforts completed by Sterling as well as the synergies that we expect to achieve as a result of

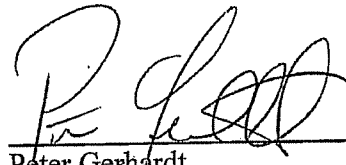
combining Sterling's operations with those of Town give me confidence that Town will generate sufficient cash flow so as to comfortably fulfill the lease and other obligations relating to the acquired stores.

11. Town is a financially successful retailer and has consistently generated excess cash flow after fulfilling all of its obligations and making investments in new stores, renovations and working capital. I expect this to continue to be the case after acquiring the Business. The Purchase Price under the Sterling APA will be funded primarily with additional capital invested by Town's shareholders and certain of their partners with only the excess over the Base Working Capital Amount, if any, being funded by debt. Town's lead lender, the Bank of Montreal, has issued a term sheet to the company which would provide Town with access to an additional \$15 million of revolving credit to support the acquisition and operation of the Business. While it is my expectation that rental and other obligations under the Real Property Leases (and other payment obligations under the other Contracts) will be funded out of cash flow from operations, I believe the additional access to liquidity provided by the above-referenced facility clearly demonstrates Town's financial ability to honour its commitments under the Contracts.

12. Based on Town's successful history in the retail footwear industry, the expertise and commitment of its senior management and key stakeholders, its history of honouring its financial commitments and financial ability to do same, I believe that Town is willing, able and motivated to honour and perform its obligations under the Contracts to be assigned to Town pursuant to the Purchase Agreement.

AFFIRMED BEFORE ME at the city of  
Toronto, Ontario on April 17, 2012.

  
A Commissioner for taking Affidavits for  
Ontario

  
Peter Gerhardt