

This is the 2nd affidavit of
D. Gumprich in this case and was
made on November 15, 2011

No. S-117081
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

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

AND

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

PETITIONERS

AFFIDAVIT

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

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

3. Since the date of the Initial Order made October 21, 2011 (the “**Initial Order**”), the Company has undertaken a number of steps in respect of its overall restructuring under the CCAA, including:

- (a) Engaging in numerous discussions with creditors and suppliers to ensure the continued delivery of goods and services during the CCAA process;
- (b) Analyzing its five retail banners and wholesale division in order to assess the viability of each on a going-forward basis;
- (c) Continuing the strategic and financial review of its 158 store locations to determine which locations do not effectively reach the Company’s target audience, do not fit the Company’s long-term vision for its operations or do not contribute to the financial viability of the business;
- (d) Terminating the employment of three employees;
- (e) Working with the Company’s lender and the lender’s advisor;
- (f) Investigating and commencing the process of contacting potential liquidators to assist with store closures and inventory sales;
- (g) Investigating and commencing the process of contacting interested parties relating to potential lease assignments in respect of certain store leases;
- (h) Working with its financial advisor and the Monitor to review the Company’s financial and liquidity issues, develop an overall restructuring strategy and improve the Company’s long-term financial prospects and enterprise value; and
- (i) Fielding inquiries from numerous parties who have provided an initial expression of interest with respect to participating in a restructuring of the Company.

The Company's Suppliers

4. The Company has spent significant time addressing issues relating to its suppliers. Through discussions with a number of its suppliers and creditors, the Company has been able to ensure that shipping and supply chains are in place to allow for a continuation of the business.

5. In accordance with the terms of the Initial Order, the Company has made payments on account of certain pre-filing amounts to key suppliers (the “**Payments**”). The Payments were made only after obtaining the approval of the Monitor.

6. Prior to making the Payments, the Company determined that these suppliers were critical in nature, could not be easily replaced or not easily replaced in a timely and cost effect manner and, in most cases, the supplier held goods of substantial value which would not be released without being paid. The Company determined that making the Payments was in the best interests of the Company. If these suppliers had withheld their services and/or withheld goods, there would have been a serious disruption to the business of the Company.

7. To date, the dollar amount of the Payments approved by the Monitor and paid by the Company has totaled approximately \$1 million. Further payments totaling approximately \$350,000 are being reviewed.

Retail Banner and Wholesale Division Closures

8. After conducting an analysis of the Company's five retail banners and its wholesale division, the Company has made a decision to close the Gia and Joneve banners and its wholesale division, B-Code Imports. These banners were under-performing and had a negative impact on the Company's financial position. The wholesale division was determined to be outside the core of the Company's continued operations.

9. The Joneve and Gia banners comprise 15 of the Company's 158 stores. It is expected that these banners will cease operations in 2012. At this time it is unclear whether all of the stores operating under these two banners will be closed and the leases assigned or disclaimed, or whether some of them will be converted to other banners. B-Code Imports will be wound down

by the end of December or early in the new year though the liquidation of any remaining inventory. Two of its three employees have been terminated.

Store Closures

10. As set out in the Petition, the Company has engaged in a critical evaluation of its retail stores. While a final decision has not yet been made, an initial analysis by the Company, with the assistance of advisors, suggests that of the 158 retail store locations, the Company may close a number of stores beginning in early 2012 (the “**Potential Closures**”).

11. The Potential Closures are under-performing stores that have a negative impact on the Company’s overall financial position. The Company is of the view that the closing of these stores will improve its overall financial position and will better enable it to successfully restructure.

12. The Company expects to make a final decision on the Potential Closures, and the timing for the individual store closures, in or around December 2011.

Employees

13. Since the date of the Initial Order, and as of November 14, 2011, the Company has terminated the employment of three employees. The terminated employees were, or will be, paid their accrued vacation pay entitlement but have not, or will not, be provided with any severance payment in lieu of notice.

14. The Company is continuing to review its operations to determine if any further lay-offs are necessary.

The Bank of Montreal (“BMO”)

15. The Company continues to work with and maintain a good working relationship with BMO. BMO continues to provide funding to the Company under the terms and conditions of the Forbearance Agreement. As of the date of this affidavit, there are no outstanding breaches of the Forbearance Agreement by the Company.

Store Closure – Liquidation Process

16. In light of the fact that a number of the Company's retail locations will be closed, the Company will have excess inventory that will have to be liquidated.

17. Since the granting of the Initial Order, the Company, with the assistance of its advisors, has identified a number of parties with significant retail liquidation experience. A number of those parties have been contacted, and of those, a number have executed non-disclosure agreements as part of the initiation of a request for proposal process.

18. As part of the liquidation process, a liquidator will have to be chosen and an agency agreement will have to be negotiated and entered into with the chosen liquidator. It is expected that the Company will be in a position to seek the Court's approval of the agency agreement during the week of December 5, 2011, with the liquidation process commencing thereafter.

19. As part of that liquidation process, the Company also expects to have sale guidelines approved by the Court. The Company hopes that it will be able to come to an agreement with the landlords, or a significant percentage of them, with respect to the terms of such sale guidelines prior to any such Court application.

Restructuring Plan

20. The Company has been working with its financial advisor, Capital West Partners, as well as the Monitor, to develop a viable restructuring plan and explore strategic alternatives for the Company to permit it to continue operating as a going concern upon emergence from creditor protection. The Company, along with its advisors, is continuing to examine and develop strategies to grow the more successful aspects of the Company's business operations.

21. The Company and its advisors have been contacted by numerous parties that have made initial expressions of interest in participating in a restructuring of the Company. The Company will be considering these expressions of interest as matters progress and as its strategy is more fully developed.

Cash Flow

22. Attached as Exhibit "K" to my first affidavit, sworn October 20, 2011 was a cash flow forecast through December 31, 2010 (the **Cash Flow Forecast**). Attached as **Exhibit "A"** to this affidavit is copy of that Cash Flow Forecast.

23. The Company's "Net Cash Flow" position as at November 12, 2011 is better than forecast in the Cash Flow Forecast. For the four week period ending November 12, 2011 the "Receipts" of the Company are approximately \$600,000 better than forecast and the "Net Cash Flow" shows a positive variance of approximately \$1 million. The "Total Bank Position" has decreased by approximately \$3 million but approximately \$2.4 million of that amount is a result of expected timing differences. In particular, I note the following:

- (a) Payments to vendors are approximately \$870,000 lower primarily due to delayed product delivery in the initial weeks immediately following the commencement of the CCAA proceedings. This reflects, primarily, what we expect are temporary disruptions in the timing of product shipments;
- (b) Letters of credits required to be open were lower than forecast by \$360,000 due to delays and temporary disruption in the timing of product purchase orders and shipments, as noted above;
- (c) Other expenditures, which includes office, IT, telephone, marketing, travel and other miscellaneous office and store costs is \$350,000 lower than forecast primarily due to timing differences; and
- (d) Professional fees were substantially less than forecast but this is most likely due to timing differences.

Key Employee Incentive Plan

24. While the Company is not seeking the approval of a key employee incentive plan ("KEIP") at this time, it will likely be necessary to come before the Court to seek approval for a KEIP in the near future. It is expected that such an application will be made during the week of December 5, 2011 at the same time as the application to approve the liquidation agency agreement and the sale guidelines. At that time the Company will provide details concerning the KEIP and the reasons for seeking approval of such.

Director Resignation

25. Effective October 24, 2011, Solomon Oshry resigned as a director of Sterling Shoes Inc. With the resignation of James Bruce prior to the commencement of these proceedings, and the resignation of Mr. Oshry, there are five remaining directors of Sterling Shoes Inc.

General

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

27. After reviewing the cash flow forecast and after considering both the operations of the Company and the expected costs of operations on a going-forward basis, it is my view that the Company has sufficient liquidity, or in the alternative sufficient financing, to operate until the stay extension date of December 30, 2011.

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

AFFIRMED BEFORE ME at Richmond,
British Columbia on November 15, 2011.

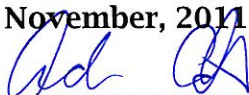


A Commissioner for taking Affidavits for
British Columbia


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This is Exhibit "A" referred to in the Affidavit of **Daniel Gumprich** affirmed before me at **Richmond, BC** this **15th** day of **November, 2011**



A Commissioner for 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	Notes	Actual											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	1-11 Total
Total Sales Receipts (incl. HST)	2	\$ 2,816	\$ 2,660	\$ 2,648	\$ 2,286	\$ 2,232	\$ 2,587	\$ 2,886	\$ 2,726	\$ 2,542	\$ 2,693	\$ 3,062	\$ 4,302	\$ 30,624	\$ 33,440
Disbursements															
Vendors	3	(400)	(547)	(921)	(631)	(387)	(184)	(242)	(90)	(349)	(559)	(153)	(377)	(4,440)	(4,840)
Payroll	4	(296)	-	(602)	(166)	(810)	(263)	(600)	(165)	(837)	(237)	(753)	(168)	(4,511)	(4,917)
Rent	5	-	-	-	(1,650)	(75)	-	-	(1,650)	(75)	-	-	-	(3,450)	-
Sales tax	6	-	-	-	(100)	-	-	-	(430)	-	-	-	(625)	(1,155)	(1,155)
Deposits	7	-	-	(200)	-	-	-	-	-	-	-	-	-	(200)	(200)
Pre-filing related payments	8	-	-	(513)	(341)	-	-	-	-	-	-	-	-	(854)	(854)
Other / Drawdown of Accord LC	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	13,558
Professional fees	10	(114)	(326)	(332)	(315)	(233)	(171)	(166)	(144)	(138)	(116)	(111)	(133)	(2,185)	(2,209)
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	9,219	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 Gumprieh
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.