

This is the 6th affidavit of
D. Gumprich in this case and was
made on April 18, 2012

No. S-117081
Vancouver Registry

IN THE SUPREME COURT OF BRITISH COLUMBIA

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

AND

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

AND

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

PETITIONERS

AFFIDAVIT

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

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

Background

3. The Petitioners were granted protection under the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") pursuant to an Order dated October 21, 2011 (the "Initial Order"). While Sterling Shoes Limited Partnership was not an applicant under the Initial Order, the Court ordered that the stay of proceedings and other protections provided in the Initial Order applied to Sterling Shoes Limited Partnership.

4. As outlined in my Affidavit #1, filed October 21, 2011, the Company sought relief under the CCAA as a result of, amongst other things:

- (a) declining revenues;
- (b) decreased sales over the prior 24-month period;
- (c) liquidity challenges; and
- (d) a challenging retail environment.

5. Since the Initial Order, the Company has undertaken a number of efforts to further its restructuring efforts and to preserve the Company's enterprise value and value for the Company's stakeholders.

Overview: Sale and Investor Solicitation Process

6. In August 2011, the Company commenced working with its financial advisor in respect of a plan for a sale of, or investment in, the Company. In preparation of a potential sale or investment, the Company, with the assistance of its financial advisor, developed a detailed business restructuring plan, contacted numerous potential investor groups and entered into non-disclosure agreements with certain of these groups.

7. On December 9, 2011, the Company obtained court approval to commence a sale and investor solicitation process (the "SISP"). This process is outlined in my Affidavit #3, filed December 6, 2011.

8. Following the approval of the SISP, the Company undertook extensive efforts to work with its financial advisor to locate potential purchasers and investors for the Company. The specific efforts undertaken by the Company are outlined in my Affidavit #5, filed March 28, 2012.

9. In February 2012, the Company received several non-binding proposals for the purchase of substantially all of the assets of the Company (the “**Non-Binding Proposals**”). The Company, with the assistance of its financial advisor, conducted a detailed review and evaluation of the Non-Binding Proposals.

10. When reviewing and evaluating the Non-Binding Proposals, the Company considered a number of factors, including, but not limited to, the key assumptions made in the Non-Binding Proposals, the form of consideration, the proposed structure, the assets purchased and liabilities assumed, the required working capital, the due diligence undertaken by the interested party, the additional due diligence requirements, the timing, the closing date, the total consideration, the prospects of a closing and the effect on employees and other stakeholders.

11. Based on the analysis undertaken, and after considering the views of the Company’s financial advisor and the Monitor, the Company identified the Non-Binding Proposal of Town Shoes Limited (“**Town Shoes**”) to be the superior proposal.

12. Town Shoes is an Ontario-based company that operates retail shoe locations in British Columbia, Alberta, Manitoba, Ontario and Nova Scotia.

13. While the Company, with the assistance of its financial advisor, undertook the SISP, the Monitor was advised of all significant developments, reviewed the Non-Binding Proposals and was advised, where appropriate, of the negotiations with Town Shoes.

14. Over the course of approximately six weeks, Town Shoes conducted extensive due diligence and the Company and Town Shoes engaged in detailed negotiations regarding a potential asset purchase agreement.

15. On April 16, 2012, Sterling Shoes GP Inc., Sterling Shoes Limited Partnership, Town Shoes and the Monitor executed an asset purchase agreement (the “APA”). I understand that a redacted version of the executed APA will be attached to a separate affidavit and filed with the court.

16. The filed copy of APA has been redacted to remove certain confidential business and financial terms. I understand that an unredacted copy of the APA will be made available to the Court at the applicable hearing. The Company and Town Shoes have, at all times understood, that certain specific business and financial terms of the APA would be kept confidential given the sensitive nature of them.

17. Town Shoes is not a public company and does not disclose the specifics of its business arrangements with its competitors or the public. The retail shoe business is a very competitive business and disclosure of key business and financial dealings would create competitive disadvantages. Furthermore, certain of the redacted information contains additional private and confidential information such as information with respect to individual employees.

18. Upon executing the APA, Town Shoes delivered a \$1 million deposit, which deposit is being held in trust by the Monitor.

19. Subject to the completion of various conditions precedent, the purchase of the assets contemplated in the APA must close on or before May 22, 2012.

The APA

20. In general terms, pursuant to the APA Town Shoes will acquire 72 of the 105 retail stores operated by the Company (with the ability to increase or reduce a limited number of leases assigned upon an election made prior to the court hearing approving the APA) along with the related trademarks, inventory, equipment and systems for a price of \$17,500,000, subject to certain adjustments. Certain terms of the APA are outlined below. All terms not previously defined herein are defined in the APA.

Assets

21. Town Shoes agrees to purchase the Assets, which include, among other things:
- (a) Inventory, which includes, for example, all inventory located at, or in transit to, the Leased Premises or the Head Office on the Closing Date;
 - (b) the furniture, fixtures and equipment owned by the Company at the Leased Premises and at the Head Office, that is not the property of the landlords of such locations;
 - (c) the Contracts, which include, the Real Property Leases and certain other agreements;
 - (d) the Leased Premises, which comprise 72 leased retail locations in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario (subject to the potential adjustment described above);
 - (e) Pre-paid Amounts, which include, for example, various deposits, pre-paid charges and security deposits made by or on behalf of the Company;
 - (f) Leased Assets, which include, for example, equipment and other personal property leased or rented by the Company and located on the Leased Premises;
 - (g) Receivables, which include, for example, accounts receivable, trade accounts and recoverable deposits; and
 - (h) Bank Accounts, as set out in the APA.

Purchase Price and Escrow Amount

22. In consideration for the Assets, Town Shoes has agreed to pay the Company \$17.5 million, subject to certain adjustments, as well as the assumption of the Assumed Liabilities, described in greater detail below.

23. At Closing, Town Shoes will pay \$3 million (the Escrow Amount) to the Monitor to be held in trust. The Escrow Amount will serve as security for Town Shoes in respect of the Company's obligations under the APA. The Escrow Amount will be released to the Company in accordance with the APA.

Excluded Assets

24. The APA provides that certain of the Company's assets will not be acquired by Town Shoes. The Excluded Assets include, among other things:

- (a) Cash;
- (b) all insurance policies in effect on the Closing Date;
- (c) certain real property leases or contracts not included in the APA; and
- (d) all refunds, credits, net operating losses and claims for taxes for periods prior to the Closing Time.

Assumed Liabilities

25. Pursuant to the APA, Town Shoes will assume the Assumed Liabilities, which include, among other things:

- (a) all of the Company's liabilities and other obligations accruing or arising after the Closing Time with respect to the Contracts, Transferred Employees and any Inventory that is in-transit;
- (b) gift certificates or cards, merchandise exchange, return or refund programs and customer credits issued prior to the Closing Time;
- (c) all liabilities and other obligations in respect of Transfer Taxes; and
- (d) all liabilities and obligations arising from ownership and use of the Assets from and after the Closing Time.

Employment Issues

26. Prior to the Closing Date, Town Shoes is required to make employment offers, on substantially similar terms and conditions, to the Company's employees as identified in the APA. Approximately 575 employees will receive offers of employment.

27. Town Shoes will not be continuing any of the Company's Benefit Plans.

Court Approval

28. The closing of the sale of the Assets under the APA is subject to the Company obtaining a vesting order from the Court, which must be obtained 21 days prior to the May 22, 2012 Closing Date.

29. In addition, the Company is required to seek court approval for the assignment of the Contracts and Leased Assets.

Sale of Non-Purchased Inventory and Equipment

30. Pursuant to the APA, 33 stores (subject to the possible adjustment described above), and related inventory and systems, of the Company will not be purchased by Town Shoes. At this time, it is the intention of the Company to seek a court order, on a date to be determined, authorizing the appointment of a third-party agent to conduct a sale inventory process at these locations (the “**Remaining Locations**”) and to disclaim these leases as part of the overall restructuring. It is expected that this process will be substantially similar to that approved by this Court by way of Order dated December 9, 2011 and outlined in my Affidavit #3.

31. Until such an application is heard, the Company intends to continue operations at the Remaining Locations and will continue to make all regular payments in respect of its employee wage-related obligations, leasing obligations, statutory remittances and other operational expenses.

32. Pursuant to the APA, the Company is entitled to continue operations at the Remaining Locations and the Company is entitled to use the Trademarks until the earlier of (i) 90 days after Closing or (ii) the completion of the Non-Purchased Inventory and Equity Sale. The Company is required to conduct this sale substantially in accordance with the Sales Guidelines attached to the APA.

33. The Company is entitled to keep all of the net proceeds of the Non-Purchased Inventory and Equipment Sale.

34. Town Shoes agrees to provide operational support to the Company until 45 days after the Inventory Sale Completion Date, provided its out-of-pocket expenses are reimbursed by the Company.

The APA is in the Best Interests of the Company

35. The APA is the result of many months of extensive efforts which have involved pursuing the closure of under-performing stores (as approved by the Court by way of Order dated December 9, 2011), conducting the court-approved SISP (as supervised by the Monitor), engaging in an extensive marketing and solicitation process and finalizing lengthy negotiations with an arm's length purchaser.

36. The Company and its professional advisors undertook significant efforts during this process to obtain the most favourable agreement for the Company and its stakeholders in the circumstances.

37. The Company is of the view that the APA represents the best deal for the Company and its stakeholders given the Company's current situation. The Company, with the assistance of its financial advisor, conducted an extensive and critical evaluation of Town Shoes' offer and concluded it offered the best opportunity for the Company to further its restructuring efforts.

38. It is the Company's view that the purchase price reflects the best possible price for the Assets under the circumstances, exceeds the consideration offered in the other Non-Binding Proposals and exceeds liquidation value.

39. Furthermore, a number of additional benefits will result from the APA. In particular, Town Shoes' acquisition of the Company will result in the continued employment of many jobs in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Numerous relationships with the Company's suppliers and landlords will also be maintained as a result of this transaction.

Assignment of Contracts

40. The APA requires the Company to seek court approval for the assignment of the Contracts, which includes 72 real property leases, which are located in British Columbia,

Alberta, Manitoba, Saskatchewan and Ontario (the “**Leases**”) (subject to the potential adjustment described above) and approximately 30 other contracts that are required in the Company’s operations (collectively, the “**Assignments**”).

41. The Assignments are a condition precedent to the closing of the APA.

42. It is my understanding that Town Shoes intends to carry out substantially the same business as the Company at the retail locations that it seeks to have assigned. The Leases are an integral and necessary component of the APA and Town Shoes’ ability to continue operations at those locations. Accordingly, the Assignments are critical to the Company’s restructuring efforts and obtaining the maximum realization value for the Company.

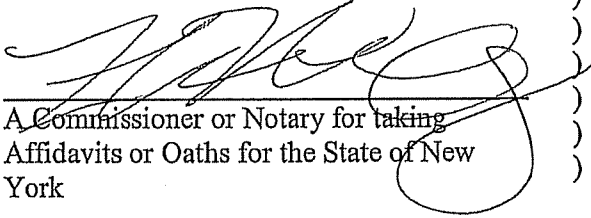
43. As a result of the timelines set out in the APA, as well as the conditions imposed by the agreements with the Company’s lender, it is practically impossible to seek consensual assignment agreements from each of the landlords and counter-parties.

44. Based on my extensive involvement in the negotiations of the APA with Town Shoes and the knowledge I have gained of Town Shoes’ operations, I believe Town Shoes is ready, willing and able to perform the obligations under the Contracts if the Assignments are approved by the Court.

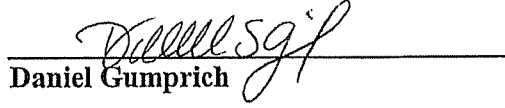
45. As noted above, the APA was the result of an extensive marketing process. Town Shoes has already satisfied a number of the conditions precedent of the APA, including the delivery of a \$1 million deposit, demonstrating its commitment to consummate the APA and its financial capabilities.

46. Based on my review of the Company’s records, the Company is in good standing under the Contracts and there are no monetary defaults outstanding. The Company intends to pay any monetary defaults under the Contracts should any be discovered.

AFFIRMED BEFORE ME at the City of
New York, the State of New York on April
18, 2012.


A Commissioner or Notary for taking
Affidavits or Oaths for the State of New
York

THOMAS MENDER CHUNG
NOTARY PUBLIC, State of New York
Reg. No. 01CH6204181
My Commission Expires April 13, 2013


Daniel Gumprich