

No. S117081
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.

EIGHTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

October 9, 2012

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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APPENDICES

Appendix A – January 2013 Cash Flow Statement for the 15 week period ending January 12, 2013.

1.0 INTRODUCTION

1.1 Alvarez & Marsal Canada Inc. ("**A&M**" or the "**Monitor**") was appointed as Monitor pursuant to the order (the "**Initial Order**") pronounced by this Honourable Court on October 21, 2011 (the "**Order Date**") on the application of Sterling Shoes Inc. ("**Sterling**") and Sterling Shoes GP Inc. ("**Sterling GP**") (together, the "**Petitioners**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"). The proceedings brought by the Petitioners under the CCAA will be referred to herein as the "**CCAA Proceedings**". The Petitioners and Sterling Shoes Limited Partnership (the "**Partnership**") will be referred to herein as the "**Petitioner Parties**" or the "**Company**".

1.2 On December 9, 2011, on the application of the Petitioner Parties, this Honourable Court made an order approving, among other things:

- a) the execution by the Partnership of an agreement (the "**Century Agreement**") between the Partnership and Century Services LP, by its general partner, Century Services Inc., which allowed the Company to undertake a liquidation of store merchandise in 53 retail locations in accordance with a store closure plan (the "**Phase I Store Closure Plan**");
- b) a sale and investment solicitation process ("**SISP**") to be undertaken with the assistance of, and in consultation with, the Company's financial advisor, Capital West Partners ("**CapWest**");
- c) a key employee incentive plan ("**KEIP**") for select management and employees of the Company and a charge in favour of certain "Key Employees" in respect of the Company's obligations pursuant to the KEIP; and
- d) an extension of the forbearance agreement between the Company and its primary operating lender, Bank of Montreal ("**BMO**"), to March 31, 2012 (which was subsequently extended to May 25, 2012).

1.3 On April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an order (the "**Claims Process Order**"):

- a) approving a claims process (the "**Claims Process**") for the determination of claims against the Petitioner Parties, and
- b) extending the stay of proceedings under the Initial Order to June 30, 2012 (the "**Stay Period**").

- 1.4 On April 30, 2012, on the application of the Petitioner Parties, this Honourable Court made orders:
- a) Approving, and authorizing Sterling GP and the Partnership to enter into, the asset purchase agreement dated April 16, 2012 (the “**APA**”) among Sterling GP, the Partnership, Town Shoes Limited (“**Town**”) and the Monitor; and
 - b) assigning to Town 69 leases of retail premises located in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario and certain contracts required for the continued operation of the Company’s business.
- 1.5 On May 8, 2012, on the application of the Petitioners Parties, this Honourable Court approved, and authorized Sterling GP and the Partnership to enter into, an agency agreement (the “**Agency Agreement**”) with Great American Group, LLC (“**Great American**”), which allowed the Company to undertake a liquidation of store merchandise in 36 retail locations (the “**Remaining Stores**”) in accordance with the second store closure plan (the “**Phase II Store Closure Plan**”).
- 1.6 On June 14, 2012, this Honourable Court approved an extension of the Stay Period to October 15, 2012.
- 1.7 The Petitioner Parties have filed a Notice of Application seeking an extension of the Stay Period to January 11, 2013. In support of the Notice of Application, the Petitioner Parties are relying on the Ninth Affidavit of Mr. Daniel Gumprich (Sterling’s Chief Financial Officer), sworn October 5, 2012 (the “**Gumprich #9 Affidavit**”).
- 1.8 The Initial Order, together with the Notice of Application, the Gumprich #9 Affidavit and select motion material and other documentation filed in the CCAA, are posted on the Monitor’s website at www.alvarezandmarsal.com/sterling.

2.0 PURPOSE OF REPORT

- 2.1 This is the Monitor’s eighth report (the “**Eighth Report**”) and it has been prepared to provide this Honourable Court and the Company’s stakeholders with:
- a) an update on the status of the sale of those assets and leases of the Company to Town pursuant to the APA, consisting of inventories, furniture, fixtures, information systems, bank accounts, other store related assets and working capital items at 69 retail locations (collectively the “**Purchased Assets**”), the Phase II Store Closure Plan and the liquidation undertaken by Great American pursuant to the Agency Agreement;

- b) an update on the Claims Process generally, including an estimate of the expected distribution to creditors and timing thereof;
- c) a review of the Company's cash receipts and disbursements for the period ended September 29, 2012;
- d) the Company's revised cash flow forecast to January 12, 2013; and
- e) the Monitor's recommendation with respect to the Petitioners' request for an extension of the Stay Period to January 11, 2013.

3.0 TERMS OF REFERENCE

3.1 In preparing this report, A&M has necessarily relied upon unaudited financial and other information supplied, and representations made to us, by certain senior management of the Company ("**Management**"). Although this information has been subject to review, A&M has not conducted an audit nor otherwise verified the accuracy or completeness of any of the information prepared by Management or otherwise provided by the Petitioner Parties. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy of any information contained in this report, or otherwise used to prepare this report.

3.2 Certain of the information referred to in this report consists of financial forecasts and/or projections prepared by Management. An examination or review of financial forecasts and projections and procedures, as outlined by the Canadian Institute of Chartered Accountants, has not been performed. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections and the variations could be material.

3.3 Unless otherwise stated, all monetary amounts contained in this report are expressed in Canadian dollars.

4.0 UPDATE ON THE TOWN TRANSACTION

Background

4.1 In accordance with the provisions of the APA, the sale of the Purchased Assets to Town closed on May 22, 2012.

Sales Proceeds and Final Working Capital Adjustment

- 4.2 The proceeds received by the Company from the sale of the Purchased Assets was \$21.3 million as summarized at paragraph 4.3 of the Monitor's Seventh Report. In accordance with the terms of the APA, Town paid \$3.0 million to the Monitor to be held in escrow until such time as the Company and Town agreed to the final Closing Working Capital Amount (as defined in the APA), and an additional \$500,000 to be held as a replacement for the Administrative Charge which was contained in the Initial Order. At or around closing of the APA, the Company paid BMO \$939,000 to retire its indebtedness resulting in net proceeds to the Company of \$16.9 million as set out in paragraph 4.2 of the Monitor's Seventh Report.
- 4.3 During August and September 2012, Town and the Company worked on finalizing the Working Capital Amount. At closing of the transaction in May 2012, the Company presented an Estimated Working Capital Amount to Town, which formed the basis of the calculation of the Purchase Price. In July 2012, a proposed final Working Capital Amount was calculated and subsequently discussed with Town. The primary differences between the Estimated Working Capital Amount and the proposed final Working Capital Amount relate to an over estimate of inventory (book to physical and valuation adjustments), an over estimate of current receivables and an underestimate of current liabilities.
- 4.4 The Company and Town have reached a settlement in principle as to the final calculation of the Closing Working Capital Amount and the resolution of certain other outstanding matters, though that agreement remains subject to the negotiation and execution by the parties of a settlement agreement. There are a number of outstanding issues that may forestall the resolution of the final Closing Working Capital Amount by agreement, however, the Monitor is advised that it is expected that these issues will be resolved in the near future resulting in the release of the entire \$3.0 million to Town in full and final satisfaction of the Company's obligations under to the APA. Accordingly, the payment of this amount has been included in the January 2013 Cash Flow Forecast (refer to section 8.3(a), below).
- 4.5 Assuming the full \$3.0 million in escrow is paid to Town in connection with the resolution of final Closing Working Capital Amount, the net proceeds received from the sale of the Purchased Assets will have been \$18.3 million, calculated as follows:

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc.
Analysis of the Purchase Price received from Town Shoes Limited
(\$000's)

Proceeds received by the Company as set out in section 4.3 of the Monitor's Seventh Report	\$ 21,323
Less escrow amounts to be returned to Town Shoes (note 1)	<u>3,000</u>
Proceeds received by the Company	<u><u>18,323</u></u>

Notes:

(1) This amount relates to the adjustment between the estimated and the final working capital calculation.

5.0 UPDATE ON PHASE II STORE CLOSURE PLAN

- 5.1 In accordance with the Agency Agreement, the liquidation of inventory at the Remaining Stores commenced on May 10, 2012.
- 5.2 On May 22, 2012, the Company issued Notices of Disclaimer or Resiliation (“**Notices**”) to 13 of the 36 landlords of the Remaining Stores advising them of the Company’s intention to disclaim their leases. During June and July 2012, the Company issued Notices in respect of the remaining 23 leases.
- 5.3 The liquidation of inventory at the Remaining Stores was completed by Great American by the end of July 2012 as contemplated by the Agency Agreement. To date, the net proceeds received by the Company from the liquidation total \$3.5 million, all of which was applied to reduce the Company’s indebtedness to BMO.
- 5.4 In September 2012, Sterling and Great American resolved a number of outstanding matters relating to the Agency Agreement, including certain adjustments thereunder, resulting in an amount due to Great American from Sterling of \$117,000. This amount was paid by way of setoff against other amounts due from Great American to Sterling under the Agency Agreement.
- 5.5 As the liquidation of all the Remaining Stores by Great American has been completed, the Company has, with the Monitor’s consent, released the letters of credit provided by Great American to support the store operating expenses and 10% of the Guaranteed Amount pursuant to the Agency Agreement.
- 5.6 Upon the completion of the liquidation of inventory under the Agency Agreement and the closing of the APA, Sterling ceased all operations and therefore terminated all remaining employees (both store and management), with the exception of the CFO, and issued Notices for the head office and warehouses it had previously occupied. The Company expects to have

vacated both the head office and warehouse space by October 16, 2012 (the end of the Transition Period as defined in the APA).

- 5.7 It is expected that the CFO and the Board of Directors will stay on for a short period of time in order to assist with the Claims Process, facilitate distributions to the creditors under the CCAA and deal with ancillary issues.

6.0 UPDATE ON THE CLAIMS PROCESS

- 6.1 On April 2, 2012, this Honorable Court granted the Claims Process Order. The key terms of the Claims Process and the specific procedures for dealing with claims are described in the Monitor's Fourth and Seventh Reports dated March 29, 2012 and June 12, 2012, respectively, and are not repeated herein.

Summary of Proofs of Claim Filed to Date

- 6.2 A summary of creditor claims filed as at October 5, 2012 is set forth in the following table. Since our Seventh Report, Sterling has received further landlord and employee claims resulting from the termination of all remaining leases and employment agreements (other than of the CFO) after the liquidation was completed.

Sterling Shoes Limited Partnership and Sterling Shoes GP Inc. Summary of Claims As at October 5, 2012 (\$000's)						
Nature of Claim	Number of Claims Received	Amount of Claims (\$000's)	Number of Notices of Revision or Disallowance	Net Amount of Revision or Disallowance (\$000's)	Number of Notices of Dispute Received	Amount of Notices of Dispute (\$000's)
Pre-Filing Claims	406	15,822	9	(1,612)	5	203
Employee Claims	161	2,914	149	(826)	10	439
Landlord Claims	68	37,551	65	(37,296)	43	15,296
Director and Officer Claims	-	-	-	-	-	-
Total	635	56,287	223	(39,734)	58	15,938

Pre-filing Claims

- 6.3 Details of the pre-filing claims received are described in the Monitor's Seventh Report dated June 12, 2012 and are not repeated herein.

Restructuring Claims

- 6.4 The Restructuring Claims (as defined in the Claims Process Order) against the Limited Partnership and Sterling received to date consist of 161 claims by former employees (up from 113 as set out in the Monitor's Seventh Report) and 68 claims from landlords (up from 48 as set out in the Monitor's Seventh Report).

- 6.5 A total of 149 former employees that filed claims were issued Notices of Revision or Disallowance (“**NORDs**”) on the basis that their claim amounts were not supported by adequate information/documentation and/or were inconsistent with the applicable statutory employment standards amounts in their respective provinces as calculated by the Company. Of the total number of employees that received NORDs, 10 have subsequently filed Notices of Dispute (“**NODs**”). The Company, with assistance from the Monitor, has resolved seven of these claims, and it is expected that the three remaining claims will be resolved shortly.
- 6.6 A total of 65 landlords that filed claims were issued NORDs on the basis that insufficient information was provided to support their claims. A total of 43 NODs have subsequently been received and reviewed by the Monitor and the Company.
- 6.7 With a view to settling the claims of landlords in a cost effective and timely manner, the Company dispatched a letter dated September 11, 2012 to all landlords that had filed a NODs indicating proposed terms upon which the Company would be prepared to settle the landlords’ claim amounts. The response to the Company’s offer has been varied. Accordingly, the Monitor, in an effort to assist the Company with resolving and, perhaps, finding a basis on which to settle, these outstanding disputed claims, will shortly issue a letter to the relevant landlords seeking certain additional information pertaining to their claims.
- 6.8 As of the date of this Eighth Report, the Monitor does not anticipate receiving any further material Restructuring Claims from landlords or employees.
- 6.9 It is possible that the Company and the holders of disputed claims, in particular certain of the landlords, may not be able to resolve those claims, thereby necessitating the appointment of a Claims Officer. The Company and the Monitor have discussed appointing A&M as the Claims Officer. Given A&M’s familiarity with the Company, the disputed claims and these proceedings, the Monitor would support that appointment as it is expected to result in the best efficiency in terms of both time and professional costs.

Director and Officer Claims

- 6.10 To date, no claims have been filed against any Directors or Officers of the Petitioners.

7.0 UPDATED CCAA CASH FLOW STATEMENT AND VARIANCE ANALYSIS

- 7.1 The Company previously filed with this Honourable Court weekly cash flow forecasts for the period ending March 31, 2012 (the “**Revised Cash Flow Statement**”), for the period ending June 30, 2012 (the “**Updated Cash Flow Statement**”) and for the period ending October 13,

2012 (the “**October Cash Flow Statement**”), all of which were reviewed by the Monitor. The Monitor’s comments with respect to the Revised Cash Flow Statement, the Updated Cash Flow Statement and the October Cash Flow Statement are included in the Monitor’s Second, Third, Fourth and Seventh Reports, respectively, and are not repeated herein.

- 7.2 As part of the Monitor’s ongoing oversight and monitoring of the business and financial affairs of the Company, the Monitor has undertaken regular reviews of the Company’s actual cash flow in comparison to that forecast by Management and contained in the Revised Cash Flow Statement, the Updated Cash Flow Statement and the October Cash Flow Statement.
- 7.3 Readers are referred to section 7.0 of the Monitor’s Seventh Report for a summary of the Company’s actual consolidated cash flows compared to the Updated Cash Flow Statement for the 33 week period October 16, 2011 to June 2, 2012.
- 7.4 The Company’s actual cash receipts and disbursements for the 50 week period from October 16, 2011 to September 29, 2012 as compared to the October Cash Flow Statement are summarized in the table below:

Sterling Shoes Inc. et al.

Actual Consolidated Cash Flow Compared to the October Cash Flow Statement (Note 1)

For the 50 Week Period from October 16, 2011 to September 29, 2012

	October 16, 2011 to September 29, 2012 (Cumulative)		
(\$000's)	Actual	Forecast	Variance (Note 4)
Gross sales receipts	\$ 52,866	\$ 52,866	\$ -
Cash received on behalf of liquidators (Note 2)	12,870	12,987	(117)
Inventory liquidation	12,481	12,481	-
Sale of assets	21,323	21,323	-
Receipts (incl. taxes)	99,540	99,657	(117)
Disbursements			
Vendors	(19,050)	(19,050)	-
Payroll	(13,204)	(13,520)	316
Rent	(8,905)	(8,914)	9
Sales tax	(2,779)	(2,569)	(210)
Deposits	(213)	(213)	-
Pre-filing related payments	(1,113)	(1,113)	-
Other	(5,265)	(5,912)	647
Amounts paid to liquidators	(12,089)	(12,089)	-
	(62,618)	(63,380)	762
Cash Flow from Operations	36,922	36,277	645
CAPEX	(55)	(55)	-
Professional fees	(4,265)	(4,943)	678
Interest / Forbearance fee	(925)	(898)	(27)
Term Loan	-	-	-
Net Cash Flow	31,677	30,381	1,296
Bank Position			
Opening bank exposure (Note 3)	(14,270)	(14,270)	-
Closing Bank Position	17,407	16,111	1,296
Opening balance	\$ (2,344)	\$ (2,344)	\$ -
(Opened) / Cancelled	(721)	(695)	(26)
Drawn	3,065	3,039	26
LCs	-	-	-
Total Bank Position	\$ 17,407	\$ 16,111	\$ 1,296

Notes:

- (1) "October Cash Flow Statement" as defined in and attached to the Seventh Report of the Monitor dated June 12, 2012.
- (2) Cash received on behalf of liquidators and amounts paid to liquidators relate to receipts at stores being liquidated under agency agreements.
- (3) Adjustments to opening balances previously reported include cancellation of certain outstanding cheques post filing.
- (4) The variance is only calculated for the 17 week period from June 3, 2012 to September 29, 2012 and not the 50 week period from October 16, 2011 to September 29, 2012.

7.5 In summary, the Company has experienced a net favourable cash flow variance of approximately \$1.3 million for the 17 week period ended September 29, 2012. The key components of the net favourable variance are described below:

Receipts

- a) cash received on behalf of liquidators – the unfavourable variance of \$117,000 relates to the final settlement with Great American and the reimbursement of various expenses under the Agency Agreement;

Disbursements

- b) payroll – the favourable variance of \$316,000 relates to the lower than expected payroll expenses for store and head office staff;
- c) sales tax – the unfavourable variance of \$210,000 primarily relates to a reassessment received from Canada Revenue Agency relating to HST returns filed prior to the CCAA filing. Sterling had claimed input tax credits on invoices received from suppliers which had not been paid at the date the Initial Order was granted and now comprise Pre-Filing Claims (as defined in the Claims Process Order). These input tax credits were denied by CRA resulting in a reassessment of HST due;
- d) other – the favourable variance of \$648,000 is due to lower than expected costs for general and administrative expenses; and
- e) professional fees – the favourable variance of \$678,000 relates to lower than expected professional fees.

- 7.6 As at September 29, 2012, the Company had a closing cash balance of \$17.4 million, which includes \$13.9 million held in the Company's bank accounts and \$3.5 million held in trust for the Company by the Monitor. As noted in section 4.4 above, \$3 million of the amounts held in trust by the Monitor are expected to be released to Town as part of the resolution of the final Closing Working Capital Amount.

8.0 JANUARY 2013 CASH FLOW STATEMENT

- 8.1 The Company has prepared an updated weekly cash flow forecast of its receipts and disbursements for the 15 week period ending January 12, 2013 (the "**January 2013 Cash Flow Statement**") which supersedes the "**October Cash Flow Statement**" for the period to October 13, 2012 referred to in section 7.0 above.
- 8.2 In preparing the January 2013 Cash Flow Statement, Management has adopted the probable and hypothetical assumptions set out in accompanying notes to the January Cash Flow Statement. A copy of the January 2013 Cash Flow Statement and accompanying notes is attached hereto as Appendix "A".

8.3 In summary and as indicated in the January 2013 Cash Flow Statement:

- a) the only further cash receipt forecast in the 15 week period ending January 12, 2013 (the “**Forecast Period**”) is the final proceeds from the liquidation undertaken by Great American under the Agency Agreement in the amount of \$59,000. As noted in section 4.4 above, it is expected that the \$3.0 million currently held in escrow by the Monitor will be repaid to Town in the near future and has been included in the January 2013 Cash Flow Forecast;
- b) forecast payroll remittances of \$92,000 relate to wages and retention bonuses payable to the CFO, who has been retained to assist with, among other things, the Claims Process, distributions to creditors and other ancillary issues and are stated net of any reimbursement of payroll from Town;
- c) other than the final payment of head office rent, no further rent expenses are forecast as all remaining leases have been disclaimed. The Company anticipates that there may be some small year-end adjustments from 2011 but these are not expected to be significant;
- d) HST refunds totalling \$86,000 are calculated based on Management’s latest estimated refund and future refunds of input tax credits;
- e) other operating expenses of \$179,000 relate to general overhead costs and include general and administrative expenses, a part time consultant and Directors’ fees;
- f) estimated net cash out-flow from operations for the Forecast Period is expected to be approximately \$3.1 million before anticipated professional fees; and
- g) professional fees are estimated to be \$516,000 for the Forecast Period, approximately \$100,000 of which were accrued as at October 5, 2012 and relate to the resolution of the final Closing Working Capital Amount, the landlords’ claims and the Claims Process generally.

8.4 The Monitor has undertaken a review of the January 2013 Cash Flow Statement. A&M’s review consisted of inquiries, analytical procedures and discussions related to information supplied to us by Management and certain employees of the Company. Since hypothetical assumptions need not be supported, A&M procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the January 2013 Cash Flow Statement. The Monitor has also reviewed the information and documents provided by Management in support of the probable assumptions, as well as the preparation and presentation of the January Cash Flow Statement.

- 8.5 Based on our review, nothing has come to the Monitor's attention that causes it to believe that, in all material respects:
- a) the hypothetical assumptions are not consistent with the purpose of the January 2013 Cash Flow Statement;
 - b) as at the date of this report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the January 2013 Cash Flow Statement, given the hypothetical assumptions; or
 - c) the January 2013 Cash Flow Statement does not reflect the probable and hypothetical assumptions.
- 8.6 Since the January 2013 Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, A&M expresses no assurance as to whether the January 2013 Cash Flow Statement will be achieved.
- 8.7 The January 2013 Cash Flow Statement has been prepared solely for purposes described in Note 1 of the January 2013 Cash Flow Statement attached at Appendix "A" and readers are cautioned that it may not be appropriate for any other purpose.

9.0 POTENTIAL RECOVERIES TO CREDITORS

- 9.1 In order to assist creditors in estimating their potential recoveries, the Monitor has estimated that the cash on hand as at January 12, 2013 will be approximately \$13.75 million (refer to section 8.0 and Appendix "A"), though this amount remains subject to change. This amount may be available for distribution to creditors on or around that date.
- 9.2 No material further Restructuring Claims are expected to arise. The Restructuring Claims of landlords remain the largest unknown in estimating the total amount of all claims and, therefore, in order to provide creditors with an estimate of the *pro rata* recoveries we have included a wide range of potential claims outcomes.
- 9.3 As summarized in the table below, depending on the amounts of the landlords' claims, the Monitor estimates a potential distribution to creditors in the range of 41% to 77% of their claim.

Sterling Shoes Limited Partnership Estimated Potential Recoveries to Creditors (\$000's)		
	High \$	Low \$
Total Estimated Proceeds Available for Distribution as at January 12, 2013	<u>13,750</u>	<u>13,250</u>
Total Estimated Claims:		
Pre-filing claims	14,200	14,400
Restructuring claims		
Landlords	1,600	15,300
Employees	<u>2,100</u>	<u>2,500</u>
Total Estimated Claims	<u>17,900</u>	<u>32,200</u>
Estimated Potential Recovery Percentage	<u>77%</u>	<u>41%</u>

- 9.4 As stated in the Monitor's Seventh Report, the Monitor understands that Sterling has no assets of value and therefore the creditors of Sterling (which are primarily the holders of convertible debentures issued by Sterling), whose claims total approximately \$25.8 million as at October 5, 2012, are not expected to recover anything in respect of their claims.

10.0 EXTENSION OF STAY PERIOD


- 10.1 The Company is seeking an order of this Honourable Court to extend the Stay Period until January 11, 2013.
- 10.2 In relation to the Company's request for an extension of the Stay Period, the Monitor has specifically considered the following factors:
- a) the January 2013 Cash Flow Forecast up to January 12, 2013 and the Company's liquidity during the Forecast Period;
 - b) whether there would be any material financial prejudice to any of the Company's creditors, employees or customers as a result of an extension of the Stay Period;
 - c) the additional work required to resolve and/or adjudicate Proofs of Claim, particularly Restructuring Claims of the landlords; and
 - d) the Company's decision, with the Monitor's consent, to continue the employment of a key member of Management and to maintain the Board of Directors at least until December 31, 2012.
- 10.3 The Monitor is of the view that an extension of the Stay Period to January 11, 2013 is reasonable in the circumstances as it will allow for completion of the distribution of the remaining proceeds to creditors.

11.0 MONITOR'S CONCLUSIONS AND RECOMMENDATIONS


- 11.1 The Monitor respectfully recommends that this Honourable Court approve the extension of the Stay Period to January 11, 2013.

All of which is respectfully submitted to this Honourable Court this 9th day of October, 2012.

**Alvarez & Marsal Canada Inc.,
in its capacity as Monitor of Sterling Shoes Inc.
and Sterling Shoes GP Inc.**



Per: Todd M. Martin
Senior Vice President



Per: Callum D.M. Beveridge
Senior Director

Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
Consolidated Cash Flow Forecast (Note 1)
For the Sixty-Five Week Period from October 16, 2011 to January 12, 2013
(CAD \$000's)

Week	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	51 to 65	Total
For the Week ending	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	(incl. Actual)
Notes	6-Oct	13-Oct	20-Oct	27-Oct	3-Nov	10-Nov	17-Nov	24-Nov	1-Dec	8-Dec	15-Dec	22-Dec	29-Dec	5-Jan	12-Jan	Total	
Sales Receipts (incl. HST)	\$ 52,866	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 52,866
Cash Received on Behalf of Liquidators	\$ 12,870	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,870
Inventory Liquidation	\$ 12,481	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,481
Sale of Assets	\$ 21,323	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,323
Gross Receipts	\$ 99,540	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 99,540
Disbursements																	
Vendors	(19,050)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(19,050)
Payroll	(13,204)	(35)	22	(9)	-	(9)	-	-	-	-	(9)	-	(9)	(25)	(9)	(92)	(13,296)
Rent	(8,905)	(15)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,920)
Sales tax	(2,779)	-	-	-	43	-	-	-	25	-	-	-	18	-	-	86	(2,693)
Deposits	(213)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(213)
Pre-filing related payments	(1,113)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,113)
Other	(5,265)	(44)	(6)	(7)	(7)	(5)	(5)	(5)	(5)	(3)	(3)	(3)	(3)	(73)	(3)	(179)	(5,444)
Amounts paid to liquidators	(12,089)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,089)
Total Disbursements	(62,618)	(94)	16	(16)	(7)	(36)	(14)	(14)	(13)	(36)	(45)	(36)	(27)	(131)	(45)	(3,657)	(62,818)
Cash Flow from Operations	36,922	(94)	16	(2,957)	(7)	36	(14)	(14)	20	(3)	(12)	(3)	6	(98)	(12)	(3,141)	33,781
Professional fees	(4,265)	(20)	(67)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	(516)	(4,781)
Interest / Forbearance fee	(925)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(925)
Capital expenditures	(55)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(55)
Net Cash Flow	31,677	(114)	(51)	(2,990)	(40)	3	(47)	(38)	(13)	(36)	(45)	(36)	(27)	(131)	(45)	(3,657)	28,020
Bank Position																	
Opening Bank Exposure	(14,270)	17,293	17,242	14,252	14,212	14,215	14,168	14,130	14,083	14,070	14,034	13,989	13,953	13,926	13,795	17,407	(14,270)
Closing Bank Position	17,407	17,293	17,242	14,252	14,212	14,215	14,168	14,130	14,083	14,070	14,034	13,989	13,953	13,926	13,795	13,750	13,750
Letters of Credit																	
Opening balance	\$ (2,344)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Opened	(721)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drawn	3,065	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing Letters of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Bank Position	\$ 17,407	\$ 17,293	\$ 17,242	\$ 14,252	\$ 14,212	\$ 14,215	\$ 14,168	\$ 14,130	\$ 14,083	\$ 14,070	\$ 14,034	\$ 13,989	\$ 13,953	\$ 13,926	\$ 13,795	\$ 13,750	\$ 13,750

Daniel Gumpich
Daniel Gumpich
Chief Financial Officer

October 09, 2012
Date

Notes:
See following page

**Sterling Shoes Inc., Sterling Shoes GP Inc. and Sterling Shoes Limited Partnership
Consolidated Cash Flow Forecast (Note 1)**

For the 65 Week Period from October 16, 2011 to January 12, 2013

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 the estimated final settlement of amounts due to Sterling from the Great American liquidation and the estimated final working capital adjustment relating to the sale of the assets to Town of \$3 million (reduction of the purchase price originally paid).
- 3 Payroll payments are based on estimated payroll for the remaining employee of the Company. These amounts include payroll withholding taxes and other employee related expenses.
- 4 Rent payments relate to the final rent payment on the head office lease and various estimated 2011 year end adjustments (both positive and negative) relating to store leases.
- 5 Sales tax refunds are based on estimated input tax credits during the forecast period.
- 6 Other expenses include directors' fees and general and administrative expenses. These estimates have been forecasted based on estimated monthly expenses and the timing reflects when these expenses are expected to be paid.
- 7 Although the Company is working towards making a distribution to creditors, the Cash Flow Statement does not include a distribution to creditors during the period of the forecast.
- 8 Professional fees relating to the filing are based on estimates provided by legal advisors and the monitor.
- 9 The opening bank balance as at September 30, 2012 of \$17.4 million comprises of cash balances held in the Company's various bank accounts and includes amounts held in trust by the Monitor on behalf of the Company of \$3.5 million (which includes an escrow amount relating to the sale of assets to Town Shoes of \$3 million and an Administrative Charge of \$0.5 million).