

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.

TWELFTH REPORT OF THE MONITOR
ALVAREZ & MARSAL CANADA INC.

June 25, 2013

**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.**

TABLE OF CONTENTS

1.0	INTRODUCTION.....	3
2.0	PURPOSE OF REPORT	4
3.0	TERMS OF REFERENCE	4
4.0	SUMMARY OF CREDITOR CLAIMS	4
5.0	UPDATED CASH BALANCES ON HAND.....	4
6.0	OUTSTANDING MATTERS	5
7.0	MONITOR'S RECOMMENDATIONS	6

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 on the application of Sterling Shoes Inc. 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 April 2, 2012, on the application of the Petitioner Parties, this Honourable Court made an order (the "**Claims Process Order**") approving among other things, a claims process (the "**Claims Process**") for the determination of the nature and quantum of claims against the Petitioner Parties.
- 1.3 On December 12, 2012, on the application of the Petitioner Parties, this Honourable Court made an order permitting the Company to make one or more distributions to the creditors of Sterling GP and the Partnership (the "**Distribution Order**").
- 1.4 On January 23, 2013, this Honourable Court ordered that the Monitor be fully authorized and empowered to manage and carry on all aspects of the business, financial affairs and operations of the Company, including by taking any steps as, in the sole opinion of the Monitor, are necessary and appropriate to complete the Claims Process, to make distributions to creditors in accordance with the Distribution Order, and to allow the Monitor to discharge or exercise its rights, powers or duties, or to complete the administration of the CCAA Proceedings.
- 1.5 On March 26, 2013, this Honourable Court approved an extension of the stay of proceedings provided in the Initial Order and subsequent orders to June 28, 2013.
- 1.6 The Monitor has filed a notice of application dated June 25, 2013 (the "**Notice of Application**") seeking an extension of the stay of proceedings. In support of the Notice of Application, the Monitor is relying on this report.
- 1.7 The Initial Order, together with the Notice of Application, this report 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 twelfth report (the "**Twelfth Report**") and it has been prepared to provide this Honourable Court and the Company's stakeholders with the following:

- a) an update on the Claims Process;
- b) information on an outstanding employee related claim;
- c) an update on the cash balances on hand as at June 22, 2013 and cash flow variances since the Monitor's eleventh report dated March 22, 2013 (the "**Monitor's Eleventh Report**"); and
- d) the Monitor's recommendation and submission with respect to the Notice of Application filed June 25, 2013 which seeks an extension of the stay of proceedings to August 30, 2013.

3.0 TERMS OF REFERENCE

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

3.2 Capitalized terms used but not defined in this report shall have the meanings ascribed to them in prior Monitor's reports and/or other materials filed with respect to the CCAA Proceedings.

4.0 SUMMARY OF CREDITOR CLAIMS

4.1 Since the date of the Monitor's Eleventh Report, Canada Revenue Agency's ("**CRA**") claim has been settled and the remaining other pre-filing claim has also been settled. The updated gross amount of claims has now decreased to \$23.2 million from \$24.1 million as noted in the Monitor's Eleventh Report.

4.2 There is currently one outstanding employee claim. The Monitor has attempted to settle this claim, but has been unable to do so to date. The Monitor anticipates that it will make an application to this Honourable Court for the determination of the claim in the next few weeks.

4.3 No claims have been filed against any Directors or Officers of the Petitioners.

5.0 UPDATED CASH BALANCES ON HAND

5.1 The Company previously filed with this Honourable Court a weekly cash flow forecast for the period ending June 29, 2013 (the "**June 2013 Cash Flow Statement**"), which was prepared by the Monitor.

5.2 According to the June 2013 Cash Flow Statement, the forecast cash on hand as at June 22, 2013 was estimated to be \$4.64 million. The actual cash balance on hand as at June 22, 2013 was

\$4.95 million. The favourable cash flow variance of \$310,000 since the date of the Monitor's Eleventh Report relates to lower than expected professional fees incurred during the period, and receipts which included proceeds from an insurance claim and an unanticipated refund of \$154,000 received from CRA.

- 5.3 The Monitor estimates professional fees for the Monitor and its legal counsel and consultant fees to finalize the outstanding employee claim, make a final distribution, recover amounts due from CRA relating to the refund of HST and interest and penalties charged, and deal with various queries expected from creditors and other interested parties after the final distribution has been made will be approximately \$150,000 to \$200,000. This estimate includes professional and consultant fees which have been incurred but have not yet been billed. The Monitor has not prepared a detailed cash flow statement as the expenses going forward to the final distribution are expected to be limited to those described above.

6.0 OUTSTANDING MATTERS


- 6.1 As noted above, the Monitor is currently in discussions with CRA to resolve some remaining issues which, if successful, will result in further funds being received by the Company.
- 6.2 The Monitor intends to resolve the remaining claim by bringing an application for the determination of the one outstanding employee claim before this Honourable Court in the next few weeks.
- 6.3 The Monitor intends to make one final distribution to creditors as soon as the remaining employee claim has been resolved and the amounts due from CRA as noted above have been collected. This is currently expected to take place in or around the end of July 2013. However, the Monitor is seeking an extension of the stay of proceedings to August 30, 2013 in the event that discussions with these parties take longer than currently expected.

7.0 **MONITOR'S RECOMMENDATIONS**

- 7.1 The Monitor respectfully recommends that this Honourable Court grant an extension of the stay of proceedings to August 30, 2013.

All of which is respectfully submitted to this Honourable Court this 25th day of June, 2013.

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



Per: Pardeep K. Boparai
Senior Vice President



Per: Callum D.M. Beveridge
Senior Director