

# Sterling

STERLING SHOES LIMITED PARTNERSHIP

FOR IMMEDIATE RELEASE

May 08, 2006

## STERLING SHOES INCOME FUND

### MONTHLY CASH DISTRIBUTIONS TO INCREASE BY 17%

#### HIGHLIGHTS:

- **Monthly distributions to increase 17% to \$0.105 per Unit effective May 1, 2006.**
- **First-quarter 2006 sales increased 20% over the same period in 2005.**
- **Same-store sales grew 7% during first-quarter of 2006 over the same period in 2005.**
- **Launched a new concept store, “Gia” as a testing ground for new ideas and fashion trends.**

VANCOUVER, BC, May 8, 2006 –Sterling Shoes Income Fund (TSX: SSI.UN) today reported its financial results for the first quarter of 2006 and announced that the Board of Trustees of the Fund has approved an increase in its monthly cash distributions commencing May 1, 2006.

Distributions will increase by 17% from \$0.08958 to \$0.105 per trust unit. The May distribution of \$0.105 per unit will be payable on June 15, 2006 to unitholders of record on May 31, 2006.

“We increased sales by 20% during the first quarter of 2006 compared to the same period in 2005, which included same-store sales growth of 7% during that period. We have developed considerable momentum in the marketplace, successfully entering the Ontario market and delivering growth at our existing stores. We recently opened our 13<sup>th</sup> store in Ontario.” said Jeremy Horwitz, President and Chief Executive Officer.

“In view of this success and the Fund’s strong financial performance, we feel confident in increasing our cash distributions to our unitholders. It is less than a year since the Fund completed its initial public offering and established the initial monthly payment level. At that time we had 97 stores. We currently have 113 stores open with another 11 stores expected to open in time for the peak Fall selling season.”

“On April 27, 2006 we opened a new concept store, Gia, on Robson Street in Vancouver. Gia offers fashionable and athletic footwear for women, along with handbags and accessories. Gia will serve as a testing ground for new ideas and fashion trends for our other banners and may be rolled out as a chain.”

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“Our strategy in terms of financing our growth is to use our credit facilities in order to deliver as much of our net income as possible directly to our Unitholders. Despite opening 14 new stores (13 net openings) since July 12, 2005, as at May 5, 2006 we have not yet had to access any of the credit facilities designated for capital expenditure. This is due to the increasing profitability and cash flow from our existing and recently opened stores.”

## Financial Results for the First-Quarter of 2006

During the first quarter of 2006, sales rose 20% to \$19.0 million from \$15.9 million a year earlier, as same-store sales increased by 7%.

Cost of sales were 41.8% of sales for the first quarter of 2006 as compared to 54.5% during 2005. Cost of sales for the three-month period ended March 31, 2005 are not strictly comparable as Sterling Shoes Inc. (“Inc”) was privately held, had a January 31st year end, and did not prepare quarterly reports for its shareholders. Lastly, Inc calculated its obsolescence provision with respect to inventory on an annual basis only, at its year-end (January 31st). Inc’s cost of sales for the three-month period ended March 31, 2005 has been adjusted to incorporate an incremental obsolescence provision for the entire 12-month period ended January 31, 2005, whereas the Fund reviews inventory for obsolescence on a monthly basis and reflects management’s estimate for obsolescence on a quarterly basis. As a result, the Fund’s cost of sales for the three-month period ended March 31, 2005 is not comparable to the cost of sales of Inc for the three-month period ended March 31, 2005 without adjustment for the effects of the inventory obsolescence provision.

Store and selling expenses as a percentage of sales rose to 37.0% during the first quarter of 2006 from 36.6% during the same period in 2005. The increase is due to the timing of certain marketing and promotional programs.

General and administrative (“G&A”) expenses fell to 6.6% of sales for the first quarter of 2006 from 53.3% during the same period in 2005. After removing management fees and bonuses, as well as normalizing management salaries relating to the fiscal year ended January 31, 2005, G&A expenses were 5.3% for the three-months ended March 31, 2005. On this basis, increases in G&A during 2006 included additional management personnel and the adjustment to market of management’s compensation arrangements, including bonuses and the Fund’s obligations under its long-term incentive plan and certain non-recurring costs to establish the Fund as a publicly-traded entity.

Net income before non-controlling interest for the first quarter of 2006 was \$2.1 million, or \$0.31 per unit (diluted – \$0.31 per unit). Adjusted EBITDA for this period was \$2.7 million, or 14.1% of sales. This represents \$0.41 per unit. Distributable cash generated for the period was \$2.3 million, from which the Fund declared distributions totaling \$1.8 million, or \$0.27 per unit.

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The actual timing of and number of additional store openings could differ materially from what is described herein if Sterling is unable to reach timely and satisfactory agreements with the various landlords as to the final lease documentation, secure adequate labour and materials to construct the stores, deliver sufficient inventory, adapt our operational systems, or hire, train and integrate employees.

## STERLING SHOES INCOME FUND

### Interim Consolidated Balance Sheet (unaudited)

	As at March 31, 2006	As at December 31, 2005
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ 3,710,066
Accounts receivable	224,219	96,709
Inventory	21,134,957	15,338,152
Prepaid expenses and deposits	375,464	242,567
	<u>21,734,640</u>	<u>19,387,494</u>
LEASEHOLDS AND EQUIPMENT	10,396,724	9,602,058
DEFERRED FINANCING COSTS	81,669	90,631
GOODWILL	827,809	827,809
INTANGIBLE ASSETS	<u>49,041,000</u>	<u>49,041,000</u>
	<u>\$ 82,081,842</u>	<u>\$ 78,948,992</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Operating loan	\$ 469,895	\$ -
Accounts payable and accrued liabilities	14,421,486	10,969,899
Distributions payable	832,969	1,895,667
	<u>15,724,350</u>	<u>12,865,566</u>
TERM LOAN	5,000,000	5,000,000
DEFERRED LEASE INDUCEMENTS	1,240,966	1,260,257
NON-CONTROLLING INTEREST	12,023,306	11,964,635
UNITHOLDERS' EQUITY	<u>48,093,220</u>	<u>47,858,534</u>
	<u>\$ 82,081,842</u>	<u>\$ 78,948,992</u>

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## STERLING SHOES INCOME FUND

### Interim Consolidated Statement of Income

For the three-month period ended March 31, 2006

(unaudited)

SALES	\$ 19,045,645
COST OF SALES	7,956,239
<b>GROSS MARGIN</b>	<b>11,089,406</b>
EXPENSES	
Store and selling	7,045,376
General and administrative	1,258,311
	<b>8,303,687</b>
Income before interest, amortization and non-controlling interest	2,785,719
Interest expense	67,808
Loss on disposal of leaseholds and equipment	42,981
Amortization of leaseholds and equipment	587,677
Amortization of deferred financing costs	8,963
<b>INCOME BEFORE NON-CONTROLLING INTEREST</b>	<b>2,078,291</b>
<b>NON-CONTROLLING INTEREST</b>	<b>415,658</b>
<b>NET INCOME</b>	<b>\$ 1,662,633</b>
Basic and diluted net income per unit	\$ 0.31
Basic weighted average number of units outstanding	5,313,488
Diluted weighted average number of units outstanding	6,641,860

## STERLING SHOES INCOME FUND

### Interim Consolidated Statement of Unitholders' Equity

For the three-month period ended March 31, 2006

(unaudited)

	Fund Units	Cumulative earnings	Cumulative distributions	Total
Balance, beginning of period	\$ 47,846,787	3,548,895	(3,537,148)	\$ 47,858,534
Net income for the period	-	1,662,633	-	1,662,633
Distributions declared	-	-	(1,427,947)	(1,427,947)
<b>BALANCE, END OF PERIOD</b>	<b>\$ 47,846,787</b>	<b>5,211,528</b>	<b>(4,965,095)</b>	<b>\$ 48,093,220</b>

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## STERLING SHOES INCOME FUND

Interim Consolidated Statement of Cash Flows  
For the three-month period ended March 31, 2006  
(unaudited)

OPERATING ACTIVITIES	
Net Income	\$ 1,662,633
Items not involving cash	
Amortization of leaseholds and equipment	587,677
Amortization of deferred financing costs	8,963
Amortization of deferred lease inducements	(97,516)
Loss on disposal of leaseholds and equipment	42,981
Non-controlling interest	415,658
	<hr/> 2,620,395
Change in non-cash working capital balances related to operations	
Accounts receivable	(127,510)
Inventory	(5,796,805)
Prepaid expenses and deposits	(132,897)
Accounts payable and accrued liabilities	3,451,585
	<hr/> (2,605,627)
Cash provided by operating activities	<hr/> 14,768
INVESTING ACTIVITIES	
Acquisition of leaseholds and equipment	(1,425,323)
Lease inducements received	78,225
Cash used in investing activities	<hr/> (1,347,098)
FINANCING ACTIVITIES	
Operating loan	469,895
Payment of distributions	(2,847,631)
Cash used in financing activities	<hr/> (2,377,736)
<b>CASH OUTFLOW DURING THE PERIOD</b>	<hr/> <b>(3,710,066)</b>
CASH, BEGINNING OF PERIOD	<hr/> 3,710,066
<b>CASH, END OF PERIOD</b>	<hr/> <b>\$ (0)</b>
Supplemental cash flow information	
Interest paid	\$ 67,808

Additional details are available in the Fund's annual Management's Discussion and Analysis and Financial Statements filed on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the Fund's website at [www.sterlingshoesincomefund.com](http://www.sterlingshoesincomefund.com).

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## *Conference Call Notification*

Please note the Fund's conference call will take place at 11:00 am Pacific time (2:00 pm EDT) on Monday, May 8, 2006. The number to participate in the teleconference is Toll-free: 877-888-3490 or 416-695-9757. To ensure your participation, please call in about five minutes before the start of the call. For those unable to participate, a telephone replay will be available until May 22, 2006 at 888-509-0081.

Note: "EBITDA" and "Adjusted EBITDA" are not financial measures recognized by Canadian generally accepted accounting principals ("GAAP") and do not have standardized meanings prescribed by GAAP. Management cautions investors that EBITDA and Adjusted EBITDA should not replace net income or loss as an indicator of performance, or cash flows from operating, investing, and financing activities as a measure of the Fund's liquidity and cash flows. The Fund's method of calculating EBITDA and Adjusted EBITDA may differ from the methods used by other issuers. See "Reconciliation of Net Income to EBITDA and Adjusted EBITDA" in Management's Discussion and Analysis for reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable measure calculated in accordance with GAAP. See also "Non-GAAP Measures" in the Fund's Management's Discussion and Analysis filed on SEDAR ([www.sedar.com](http://www.sedar.com)).

Distributable cash is a non-GAAP measure generally used by Canadian income funds as an indicator of financial performance. The Fund defines distributable cash as Adjusted EBITDA less interest expense and less maintenance capital expenditures. The method of calculating the Fund's distributable cash may differ from similar computations as reported by similar entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

## *Forward-looking statements*

Certain statements in this press release may constitute "forward-looking" statements that involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements often use, but are not limited to, such words as "may", "will", "expect", "should", "believe", "intend", "plan", "anticipate", "potential", and other similar terminology. These statements reflect current expectations of management regarding future events and operating performance and speak only as of the date of this press release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the following factors: competitive and economic environment, impact of changes to tax treatment of income

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trusts or dividend tax credits, foreign exchange, seasonality, fluctuation of cash distributions and nature of Units. Although the forward-looking statements contained in this press release are based upon what our management believes to be reasonable assumptions, we cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this press release and we assume no obligation to update or revise them to reflect new events or circumstances.

## *About Sterling Shoes Income Fund*

Sterling is a leading Vancouver-based independent footwear retailer offering a broad selection of private label and brand name shoes and accessories in five Canadian provinces through its five separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman's and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 113 stores (as at May 8, 2006) located primarily in Western Canada in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Fund currently employs over 850 employees, and its sales for the 12 month period ended December 31, 2005 were \$81.9 million. The Fund's units are listed on the Toronto Stock Exchange under the symbol SSI.UN.

For further information, please visit us at [www.SterlingShoesIncomeFund.com](http://www.SterlingShoesIncomeFund.com), or contact:

Daniel S. Gumprich  
Chief Financial Officer  
(604) 270-6114

*Additional information about Sterling Shoes Income Fund can be found in the disclosure documents filed by Sterling Shoes Income Fund with the securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).*

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