

# Sterling

STERLING SHOES LIMITED PARTNERSHIP

FOR IMMEDIATE RELEASE

November 14, 2006

## STERLING SHOES INCOME FUND

### MONTHLY CASH DISTRIBUTIONS TO INCREASE 14%

#### HIGHLIGHTS:

- **Monthly distributions to increase 14% per Unit effective November 1, 2006.**
- **Third-quarter 2006 sales increased 24% over the same period in 2005.**
- **Same-store sales grew 6% during the third-quarter of 2006 over the same period in 2005.**
- **12 new stores opened during third quarter.**

VANCOUVER, BC, November 14, 2006 –Sterling Shoes Income Fund (TSX: SSI.UN) today reported its financial results for the three and nine-month periods ended September 30, 2006, and announced an increase in monthly distributions.

“We are pleased to announce that, effective November 1, 2006, the Fund has increased its monthly distribution from \$0.105 to \$0.12 per Unit, an increase of 14%,” said Jeremy Horwitz, President and Chief Executive Officer of the Fund. “This is the second distribution increase we have made in the last six months. Our monthly payout at \$0.12 per Unit is now 34% more than when we went public in July 2005. Furthermore, for 2005, we were able to make a special, one-time year-end payment of \$0.16 per Unit.”

Sales increased 24% during the third quarter of 2006 compared to the same period in 2005, including same-store sales growth of 6%. For the nine-month period ended September 30, 2006 total sales and same-store sales have increased 23% and 7%, respectively.

The Fund’s Ontario expansion continues to unfold as planned. We opened 12 stores during the third quarter. We currently have 125 stores across Canada. We expect to open another store by the end of the year, which will be our 25<sup>th</sup> store in Ontario.”

“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. We have not yet had to access any of the credit facilities designated for capital expenditure, despite opening 27 new stores (25 net openings), relocating 5 stores and renovating 4 stores since July 12, 2005, as at November 10, 2006. This is due to the increasing profitability and cash flow from our existing and recently opened stores.”

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shoes

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## Financial Results for the three and nine-month periods ended September 30, 2006

During the third quarter of 2006, sales rose 24% to \$30.0 million from \$21.8 million a year earlier, as same-store sales increased by 6%. For the nine-month period ended September 30, 2006, sales increased to \$71.2 million, or 23%, including same-store sales growth of 7% over the same period in 2005.

Cost of sales as a percentage of sales for the three and nine-month periods ended September 30, 2006 were 41.9% and 44.3% respectively, compared to 47.0% and 48.9% for the same periods during 2005. The decrease in cost of sales during Q3 2006 vs the same period during 2005 is primarily a result of cost savings on the procurement side. Mark-downs taken during the quarter were proportionately lower than the comparative period in 2005.

Cost of sales for the corresponding nine-month period in 2005 are not directly comparable as it was the practice of the predecessor company, Sterling Shoes Inc. at that time to record its product obsolescence provision for the fiscal year-ended January 31 in the month of January.

Store and selling expenses for the three and nine-month periods ended September 30, 2006 were 33.0% and 34.1% of sales respectively, compared to 31.7% and 33.5% for the same periods during 2005. Store and selling expenses are largely variable as a percentage of sales. Staff training and store opening costs related to the opening of 12 stores during the three-months ended September 30, 2006 contributed to the increase.

General and administrative (“G&A”) expenses for the three and nine-month periods ended September 30, 2006 were 5.3% and 5.8% of sales respectively, compared to 4.2% and 17.8% during the same periods in 2005. After removing management fees and bonuses and normalizing management salaries relating to the fiscal year ended January 31, 2005, G&A expenses were 4.7% for the nine-months ended September 30, 2005. On that basis, increases included additional management personnel, additional professional service fees related to being a reporting issuer and the adjustment to market of management’s compensation arrangements, including bonuses and the Fund’s obligations under its long-term incentive plan.

Income before non-controlling interest for the third quarter of 2006 was \$4.5 million, or \$0.68 per unit (diluted – \$0.68 per unit). Income before non-controlling interest for the nine-month period ended September 30, 2006 was \$9.0 million, or \$1.27 per unit (diluted – \$1.27 per unit).

Adjusted EBITDA during the third quarter of 2006 was \$5.2 million, or 19.3% of sales. This represents \$0.78 per unit. Adjusted EBITDA during the nine-month period ended September 30, 2006 was \$10.9 million, or 15.4% of sales. This represents \$1.65 per unit.

Distributable cash generated during the three and nine-month periods ended September 30, 2006 was \$4.3 million and \$8.7 million, respectively, from which the Fund declared distributions totaling \$2.1 million and \$5.9 million, or \$0.315 per unit and \$0.88 per unit, respectively.

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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, to secure adequate labour and materials to construct the stores, to deliver sufficient inventory, to adapt its operational systems, or to hire, train and integrate employees.

## STERLING SHOES INCOME FUND

### Interim Consolidated Balance Sheet (unaudited)

	As at September 30, 2006	As at December 31, 2005
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ 3,710,066
Accounts receivable	494,546	96,709
Inventory	23,829,039	15,338,152
Prepaid expenses and deposits	776,486	242,567
	25,100,071	19,387,494
LEASEHOLDS AND EQUIPMENT	12,844,889	9,602,058
DEFERRED FINANCING COSTS	63,744	90,631
GOODWILL	827,809	827,809
INTANGIBLE ASSETS	49,041,000	49,041,000
	\$ 87,877,513	\$ 78,948,992
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Operating loan	\$ 1,525,448	\$ -
Accounts payable and accrued liabilities	16,179,904	10,969,899
Distributions payable	976,353	1,895,667
	18,681,705	12,865,566
TERM LOAN	5,000,000	5,000,000
DEFERRED LEASE INDUCEMENTS	1,232,379	1,260,257
NON-CONTROLLING INTEREST	12,606,247	11,964,635
UNITHOLDERS' EQUITY	50,357,182	47,858,534
	\$ 87,877,513	\$ 78,948,992

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## STERLING SHOES INCOME FUND

Interim Consolidated Statement of Income  
(unaudited)

	Three-month period ended Sept 30, 2006	Nine-month period ended Sept 30, 2006	81-day period ended Sept 30, 2005
SALES	\$ 26,968,073	\$ 71,172,698	\$ 19,544,356
COST OF SALES	11,307,577	31,540,605	9,014,457
GROSS MARGIN	15,660,496	39,632,093	10,529,899
EXPENSES			
Store and selling	8,894,764	24,290,967	6,192,472
General and administrative	1,483,271	4,144,039	767,695
	10,378,035	28,435,006	6,960,167
Income before interest, amortization and non-controlling interest	5,282,462	11,197,087	3,569,732
Interest expense	89,635	232,649	80,623
Loss on disposal of leaseholds and equipment	0	42,981	0
Amortization of leaseholds and equipment	686,579	1,888,340	449,522
Amortization of deferred financing costs	8,963	26,888	7,956
INCOME BEFORE NON-CONTROLLING INTEREST	4,497,286	9,006,230	3,031,631
NON-CONTROLLING INTEREST	903,642	1,814,072	606,326
NET INCOME	\$ 3,593,643	\$ 7,192,158	\$ 2,425,305
Basic and diluted net income per unit	\$ 0.68	\$ 1.35	\$ 0.46
Basic weighted average number of units outstanding	5,313,488	5,313,488	5,313,488
Diluted weighted average number of units outstanding	6,641,860	6,641,860	6,641,860

## STERLING SHOES INCOME FUND

Interim Consolidated Statement of Unitholders' Equity  
For the nine-month period ended September 30, 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	-	7,192,158	-	7,192,158
Distributions declared	-	-	(4,693,510)	(4,693,510)
<b>BALANCE, END OF PERIOD</b>	\$ 47,846,787	10,741,053	(8,230,658)	\$ 50,357,182

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## STERLING SHOES INCOME FUND

### Interim Consolidated Statement of Cash Flows (unaudited)

	Three-month period ended Sept 30, 2006	Nine-month period ended Sept 30, 2006	81-day period ended Sept 30, 2006
<b>OPERATING ACTIVITIES</b>			
Net Income	\$ 3,593,643	\$ 7,192,158	\$ 2,425,305
Items not involving cash			
Amortization of leaseholds and equipment	686,579	1,888,340	449,522
Amortization of deferred financing costs	8,963	26,888	7,956
Amortization of deferred lease inducements	(85,956)	(264,606)	(56,077)
Loss on disposal of leaseholds and equipment	0	42,981	0
Non-controlling interest	903,642	1,814,072	606,326
	<u>5,106,871</u>	<u>10,699,832</u>	<u>3,433,032</u>
Change in non-cash working capital balances related to operations			
Accounts receivable	(327,721)	(397,837)	5,784
Inventory	(5,430,938)	(8,490,887)	(2,855,643)
Prepaid expenses and deposits	(379,957)	(533,919)	862,599
Accounts payable and accrued liabilities	3,742,723	5,210,921	2,872,416
	<u>(2,395,893)</u>	<u>(4,211,722)</u>	<u>885,156</u>
Cash provided by operating activities	<u>2,710,978</u>	<u>6,488,110</u>	<u>4,318,188</u>
<b>INVESTING ACTIVITIES</b>			
Acquisition of leaseholds and equipment	(2,156,002)	(5,174,151)	(685,881)
Lease inducements received	158,503	236,728	58,200
Acquisition of Sterling Shoes Inc.	0	0	(52,739,237)
Cash used in investing activities	<u>(1,997,499)</u>	<u>(4,937,423)</u>	<u>(53,366,918)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from credit facility	0	0	5,000,000
Financing costs incurred	0	0	(107,550)
Initial public offering of Fund Units, net of expenses	0	0	47,846,787
Operating loan	1,358,224	1,525,448	0
Payment of distributions	(2,071,702)	(6,786,201)	(783,049)
Cash used in financing activities	<u>(713,478)</u>	<u>(5,260,753)</u>	<u>51,956,188</u>
<b>CASH INFLOW (OUTFLOW) DURING THE PERIOD</b>	<b>0</b>	<b>(3,710,066)</b>	<b>2,907,458</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>0</b>	<b>3,710,067</b>	<b>0</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 2,907,458</b>
<b>Supplemental cash flow information</b>			
Interest paid	\$ 89,635	\$ 232,649	\$ 82,923

On October 31, 2006, the federal Minister of Finance announced a proposal that, if enacted, would tax publicly-traded income trusts on distributions of income to their unitholders. Existing publicly-traded income trusts would not be subject to the proposed tax until their 2011 taxation years. The proposal would have important consequences for publicly-traded income trusts and their investors.

The rate of the proposed tax on distributions of income would approximate the combined federal and provincial tax rate applicable to income earned by Canadian public corporations. The applicable rate in 2011 would be based on tax rates at that time. Currently, based on information released by the federal Department of Finance in conjunction with the announcement of the proposed tax, the rate in 2011 would be 31.5% but this is subject to changes in tax rates between now and 2011.



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The proposed tax that would be imposed on income trusts may result in a reduction in the level of distributions made to their unitholders. Distributions subject to the proposed tax and received by unitholders of income trusts would be characterized as eligible dividends from a Canadian public corporation. Generally, individual unitholders resident in Canada would be subject to tax based on the enhanced gross-up and dividend tax credit and, consequently, would receive an after-tax return from their now reduced distribution of income approximately equal to the after-tax return if pre-tax income of the income trust had been distributed directly to the investor and taxed in the hand of the investor. However, reduced distributions will be an absolute cost to other types of investors including pension funds, Registered Retirement Savings Plans (RRSPs) and non-residents who would not benefit from characterization of the distribution as dividends.

Draft legislation implementing this proposal has not yet been released. It is not possible at this time for the Fund to determine whether the proposal will be enacted as proposed, or at all, and, if enacted, what impact this proposal would have on the Fund or its Unitholders. As more information becomes available, the Fund will assess the strategic and economic issues arising from this proposal.

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).

## *Conference Call Notification*

Please note the Fund's conference call will take place at 11:00 am Pacific time (2:00 pm EDT) on Tuesday, November 14, 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 November 28, 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 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.

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## *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 trusts or dividend tax credits, foreign exchange, seasonality, fluctuation of cash distributions and nature of Units. 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, to secure adequate labour and materials to construct the stores, to deliver sufficient inventory, to adapt its operational systems, or to hire, train and integrate employees. 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 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 125 stores (as at November 14, 2006) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Fund currently employs over 950 employees, and sales of the business for the 12 month period ended September 30, 2006 were \$95.3 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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