

# Sterling

STERLING SHOES LIMITED PARTNERSHIP

FOR IMMEDIATE RELEASE

August 13, 2007

## STERLING SHOES INCOME FUND

### FUND ANNOUNCES SECOND QUARTER 2007 RESULTS

#### HIGHLIGHTS:

- Overall sales increase 12% during second quarter 2007 over same period in 2006.
- Same-store sales grew 1% during second quarter 2007 over same period in 2006.
- EBITDA increased 19% during second quarter 2007 over same period in 2006.
- Distributable Cash generated increased 27% during the second quarter 2007 over same period in 2006.
- 8 new stores opened during second quarter 2007.
- Sterling Outlet concept store launched in June 2007.

VANCOUVER, BC, August 13, 2007 – Sterling Shoes Income Fund (TSX: SSI.UN) (the “Fund”) today reported its financial results for the three and six-month periods ended June 30, 2007.

“Our operating performance during the three and six-month periods ended June 30, 2007, was strong. Our expansion strategy over the past 12 months was largely responsible for the 12% increase in sales during the second quarter 2007”, said Jeremy Horwitz, President and Chief Executive Officer. “Same store sales in the quarter compared to a year earlier grew 1%. EBITDA during the three and six-month periods ended June 30, 2007 increased 19% and 16%, respectively, compared to the same periods in 2006. Distributable Cash generated during the quarter increased by 27% over the same period in 2006.

The Fund opened 8 new stores during the second quarter, including the launch of its Sterling Outlet concept store in Calgary, Alberta in June. Year-to-date year we have opened 11 new stores (8 net openings), relocated 2 stores, and renovated 6 stores. Since our initial public offering (“IPO”) on July 12, 2005, the Fund has opened 40 stores (35 net openings), renovated 14 stores and relocated 8 stores.

We continue to expand our market presence in some of Ontario’s high profile malls under the Sterling banner, and to add Shoe Warehouse outlets in Ontario where suitable locations become available. We believe that there is significant potential for growth across Canada using the formats that have proven successful for us and we continue to evaluate and identify opportunities to add new stores both in new regions and in regions already served by us.

During 2006 we started a new banner, Gia, as a concept store on Robson Street in Vancouver. In September 2007 we plan to expand the banner from concept stage to include our second Gia store in the Metrotown Mall in Burnaby, British Columbia.

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## Financial results for the three and six-month periods ended June 30, 2007

During the second quarter of 2007, sales rose 12% to \$28.2 million from \$25.2 million a year earlier, as same-store sales increased by 1%.

For the six-month period ended June 30, 2007, sales increased to \$52.2 million or 18% over the same period in 2006.

Cost of sales as a percentage of sales for the three and six-month periods ended June 30, 2007 were 45.1% and 43.3%, respectively, compared to 48.8% and 45.8% for the same periods during 2006. Decreases in cost of sales, as a percentage of sales continue to be achieved through a number of areas such as; lower product costs resulting from better pricing on our private label products, improved purchasing economies of scale, better terms on branded merchandise, increasing price and supply stability in most markets and quick reaction to market trends. The strength of the Canadian dollar contributed marginally towards reducing our cost of sales during the three and six-month periods ended June 30, 2007, as some of our purchases are denominated in U.S. dollars.

Store and selling expenses for the three and six-month periods ended June 30, 2007 were 35.1% and 36.8% of sales compared to 33.2% and 34.8%, respectively, for the same periods during 2006. Store and selling expenses are largely variable as a percentage of sales. The Fund opened 8 and 10 new stores during the three and six-month periods ended June 30, 2007, respectively. New stores have a higher rent profile than the Fund's average store base, which has resulted in higher occupancy costs. The Fund continued to renovate its existing store base; it has been our experience that renovations generally lead to higher sales.

General and administrative ("G&A") expenses for the three and six-month periods ended June 30, 2007 were 6.7% and 6.8% of sales, respectively, compared to 5.6% and 6.0% during the same periods in 2006. These increases reflect higher staffing levels at head office required to accommodate our rapid growth.

Adjusted EBITDA during the three and six-month periods ended June 30, 2007 was \$3.6 million and \$6.7 million, representing \$0.55 and \$1.01 per unit, respectively. This compares to Adjusted EBITDA of \$3.0 million and \$5.7 million, representing \$0.46 and \$0.86 per unit in the respective periods during 2006.

Distributable Cash available for distribution to unitholders other than the retained interest during the three and six-month periods ended June 30, 2007 was \$2.0 million and \$3.6 million from which the Fund declared distributions totaling \$1.9 million and \$3.8 million, respectively, or \$0.36 and \$0.72 per unit.

This compares to distributable cash available for distribution to unitholders other than the retained interest of \$1.7 million and \$3.5 million during the three and six-month periods ended June 30, 2006 from which the Fund declared distributions totaling \$1.6 million and \$3.0 million, respectively, or \$0.30 and \$0.57 per unit.

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The Fund's payout ratio for the three and six-month periods ended June 30, 2007 was 91.2% and 106.4%, respectively compared to 96.0% and 86.5% for the same periods in 2006. The higher payout ratio in 2007 is due primarily to increases in maintenance capital expenditures which reduced cash available for distribution. Management believes that our present level of distributions is sustainable.

On June 22, 2007 the Government of Canada substantially enacted new legislation imposing a tax on the distributions paid by publicly traded income trusts in Canada, commencing in 2011. As a result of this new legislation, Canadian accounting guidance requires that the Fund record a future tax liability and a corresponding one-time charge to net income. The result of this treatment is the creation of a non-cash, future tax liability of \$7.7 million charged during the three-month period ended June 30, 2007. The liability is estimated from the potential tax that would arise if the Fund were to sell its intangible assets (its store banners and private label brand names) for proceeds equal to the book value of these intangibles on its balance sheet. The Fund currently has no intention of selling its store banners and private label brands.

<b>STERLING SHOES INCOME FUND</b>	<b>As at</b>	<b>As at</b>
<b>Consolidated Balance Sheet</b>	<b>June</b>	<b>December</b>
(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)	<b>30, 2007</b>	<b>31, 2006</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ 2,845
Accounts receivable	795	465
Inventory	26,303	18,640
Prepaid expenses and deposits	877	625
	<b>27,975</b>	<b>22,574</b>
LEASEHOLDS AND EQUIPMENT	15,471	13,283
GOODWILL	828	828
INTANGIBLE ASSETS	49,041	49,041
	<b>\$ 93,315</b>	<b>\$ 85,726</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>CURRENT</b>		
Operating loan	\$ 5,471	\$ -
Accounts payable and accrued liabilities	15,765	13,893
Distributions payable	1,116	4,218
	<b>22,352</b>	<b>18,110</b>
FUTURE INCOME TAXES	7,724	-
TERM LOAN	7,932	5,000
DEFERRED LEASE INDUCEMENTS	1,551	1,535
NON-CONTROLLING INTEREST	10,775	12,231
UNITHOLDERS' EQUITY	42,981	48,849
	<b>\$ 93,315</b>	<b>\$ 85,726</b>

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## STERLING SHOES INCOME FUND

### Consolidated Statement of Income

(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Six-month period ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
SALES	\$ 28,242	\$ 25,159	\$ 52,193	\$ 44,205
COST OF SALES	12,706	12,279	22,557	20,233
GROSS MARGIN	15,536	12,880	29,636	23,971
EXPENSES				
Store and selling	9,933	8,351	19,208	15,396
General and administrative	1,887	1,402	3,551	2,661
	11,820	9,753	22,759	18,057
Income before interest, amortization and non-controlling interest	3,716	3,127	6,877	5,914
Interest expense	185	75	294	143
Loss on disposal of leaseholds and equipment	0	0	(5)	43
Amortization of leaseholds and equipment	616	614	1,404	1,202
Amortization of deferred financing costs	0	9	0	18
INCOME BEFORE NON-CONTROLLING INTEREST AND TAXES	2,915	2,429	5,184	4,509
Future income taxes	7,724	0	7,724	0
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	(4,809)	2,429	(2,540)	4,509
NON-CONTROLLING INTEREST	(960)	489	(498)	910
NET INCOME (LOSS)	\$ (3,849)	\$ 1,940	\$ (2,042)	\$ 3,598
Basic and diluted net income per unit	\$ (0.72)	\$ 0.37	\$ (0.38)	\$ 0.68
Basic weighted average number of units outstanding	5,313,488	5,313,488	5,313,489	5,313,490
Diluted weighted average number of units outstanding	6,641,860	6,641,860	6,641,860	6,641,860

## STERLING SHOES INCOME FUND

### Consolidated Statement of Unitholders' Equity

For the three and six-month periods ended June 30, 2007

(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)

	Fund Units	Cumulative earnings	Cumulative distributions	Total
<b>Balance, July 12, 2005</b>	\$ 0	0	0	\$ 0
Issuance of units on initial public offering	53,135	-	-	53,135
Issuance costs	(5,288)	-	-	(5,288)
Net income for the 173-day period	-	3,549	-	3,549
Distributions declared during the 173-day period	-	-	(3,537)	(3,537)
<b>BALANCE, December 31, 2005</b>	\$ 47,847	3,549	(3,537)	\$ 47,859
Net income	-	1,668	-	1,668
Distributions declared	-	-	(1,428)	(1,428)
<b>BALANCE, March 31, 2006</b>	\$ 47,847	5,216	(4,965)	\$ 48,098
Net income for the period	-	1,930	-	1,930
Distributions declared	-	-	(1,592)	(1,592)
<b>BALANCE, June 30, 2006</b>	\$ 47,847	7,146	(6,557)	\$ 48,436
Net income	-	6,416	-	6,416
Distributions declared	-	-	(6,004)	(6,004)
<b>BALANCE, December 31, 2006</b>	\$ 47,847	13,562	(12,561)	\$ 48,848
Net income for the period	-	1,807	-	1,807
Distributions declared	-	-	(1,913)	(1,913)
<b>BALANCE, March 31, 2007</b>	\$ 47,847	15,369	(14,474)	\$ 48,742
Net income (loss) for the period	-	(3,849)	-	(3,849)
Distributions declared	-	-	(1,913)	(1,913)
<b>BALANCE, June 30, 2007</b>	\$ 47,847	11,520	(16,386)	\$ 42,981

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## STERLING SHOES INCOME FUND Consolidated Statement of Cash Flows

(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Six-month period ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>OPERATING ACTIVITIES</b>				
Net Income (Loss)	\$ (3,849)	\$ 1,940	\$ (2,044)	\$ 3,598
Items not involving cash				
Future income taxes	7,724	0	7,724	0
Amortization of leaseholds and equipment	616	614	1,404	1,202
Amortization of deferred financing costs	0	9	0	18
Amortization of deferred lease inducements	(78)	(81)	(153)	(179)
Loss on disposal of leaseholds and equipment	0	0	0	43
Non-controlling interest	(960)	489	(498)	910
	<b>3,453</b>	<b>2,971</b>	<b>6,434</b>	<b>5,593</b>
Change in non-cash working capital balances related to operations				
Accounts receivable	304	57	(422)	(70)
Inventory	1,131	2,737	(7,663)	(3,060)
Prepaid expenses and deposits	(146)	(21)	(252)	(154)
Accounts payable and accrued liabilities	(3,867)	(1,982)	1,965	1,469
	<b>(2,578)</b>	<b>792</b>	<b>(6,372)</b>	<b>(1,815)</b>
Cash provided by operating activities	<b>875</b>	<b>3,762</b>	<b>61</b>	<b>3,777</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of leaseholds and equipment	(1,995)	(1,593)	(3,598)	(3,018)
Proceeds from disposal of assets	0	0	5	0
Lease inducements received	168	0	168	78
Cash used in investing activities	<b>(1,827)</b>	<b>(1,593)</b>	<b>(3,426)</b>	<b>(2,940)</b>
<b>FINANCING ACTIVITIES</b>				
Capital expenditure loan	2,932	0	2,932	0
Operating loan	411	(303)	5,471	167
Payment of distributions	(2,391)	(1,867)	(7,884)	(4,714)
Cash used in financing activities	<b>952</b>	<b>(2,170)</b>	<b>519</b>	<b>(4,547)</b>
<b>CASH INFLOW (OUTFLOW) DURING THE PERIOD</b>	<b>0</b>	<b>(0)</b>	<b>(2,845)</b>	<b>(3,710)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>0</b>	<b>0</b>	<b>2,845</b>	<b>3,710</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 0</b>	<b>\$ (0)</b>	<b>\$ (0)</b>	<b>\$ (0)</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ 185	\$ 75	\$ 294	\$ 143

On June 22, 2007, the Parliament of Canada passed into law Bill C-52, an Act to implement certain provisions of the federal budget tabled in Parliament on March 19, 2007, which included legislation to implement the proposal announced by the Minister of Finance on October 31, 2006 to tax certain publicly traded trusts and partnerships on the taxable portion of their distributions. As a result of the enactment of Bill C-52 commencing January 1, 2011 (subject to the qualification below regarding the possible loss of the four year grandfathering period in the case of "undue expansion"), the Fund will not be entitled to deduct certain of its distributed income (referred to as specified income) and the Fund will be subject to a distribution tax on the specified income at a special rate estimated to be 31.5%.

The Fund may be subject to this distribution tax in respect of a taxation year of the Fund commencing earlier than January 1, 2011 if, prior to such date, the Fund engages in "undue expansion" as set out in the guidelines released by the Department of Finance on December 15, 2006 and which was incorporated by reference in Bill C-52.

The implementation of the legislation could have an adverse effect on the Fund, its ability to pay distributions and the market value of its units.

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 daylight time (2:00 pm EDT) on Monday, August 13, 2007. The number to participate in the teleconference is Toll-free: 866-542-4238 or 416-641-6127. 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 August 27, 2007 at 800-408-3053, the passcode will be 3231068.

## *Non-GAAP measures*

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.

Average Invested Capital, Free Cash Flow and Return on Invested Capital are not recognized measures under GAAP and do not have standardized meanings prescribed by GAAP. Retailers, such as the Fund, use these measures to provide insight into the businesses ability to generate strong returns on the capital employed in the business.

"Return on Invested Capital", "Free Cash Flow" and "Average Invested Capital" are calculated as follows:

$$\begin{aligned} \text{Return on Invested Capital} &= \frac{\text{Free Cash Flow}}{\text{Average Invested Capital}} \\ \text{Free Cash Flow} &= \text{EBITDA} - \text{Maintenance Capital Expenditures} \\ \text{Average Invested Capital} &= \frac{\text{Beginning (net working capital + net property, plant \& equipment)} \\ &\quad + \text{Ending (net working capital + net property, plant \& equipment)}}{2} \end{aligned}$$

"Maintenance Capital Expenditures" is not a recognized measure under GAAP. Maintenance Capital Expenditures include those required to upgrade existing stores and to maintain information systems and equipment and our warehouse.

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## *Forward-looking statements*

This MD&A includes forward-looking statements. Forward-looking statements relate to, among other things, anticipated financial performance, business prospects, strategies, market forces, and commitments. Many of these statements can be identified by words such as “believe”, “expects”, “expected”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues” or similar words. The Fund believes the expectations reflecting in such statements are reasonable but no assurance is given that such expectations will be correct. All forward-looking statements are based on the Fund’s beliefs and assumptions based on information available at the time the assumption was made and on management’s experience and perception of historical trends, current conditions and expected further developments as well as other factors deemed appropriate in the circumstances. In addition to other assumptions made in this MD&A, assumptions have been made in respect of factors such as, but not limited to, the following:

- industry activity levels;
- competitive conditions;
- consumer demand;
- access to capital;
- capital expenditure estimates, plans, schedules and activities;
- income tax considerations;
- operating risks; and
- cash distributions

By its nature, such forward-looking information is subject to various risks and uncertainties that are known and unknown, including those material risks discussed in the Fund’s 2007 annual information form and in the management’s discussion and analysis of the Fund for the year ended December 31, 2006 which could cause actual results and experience to differ materially from the anticipated results or other expectations expressed. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this annual information form or otherwise, and the Fund undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

## *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 six separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedmans, Gia and Sterling Outlet. Since 1987, Sterling Shoes has grown from five shopping mall locations to 135 stores (as at August 10, 2007) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Fund currently employs over 1,000 employees, and sales of the business for the twelve-month period ended June 30, 2007 were \$110.6 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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