

FOR IMMEDIATE RELEASE

November 12, 2007

## STERLING SHOES INCOME FUND

### FUND ANNOUNCES THIRD QUARTER 2007 RESULTS

#### HIGHLIGHTS:

- Total sales increased 14% during third quarter 2007 over same period in 2006.
- Same-store sales grew 4% during third quarter 2007 over same period in 2006.
- Fund closes \$25 million convertible debenture offering on October 3, 2007.
- Fund has opened 17 stores during 2007, bringing it to 141 stores across the country.

VANCOUVER, BC, November 12, 2007 – Sterling Shoes Income Fund (TSX: SSI.UN) (the “Fund”) today reported a 14% increase in third quarter sales to \$30.5 million from \$27.0 million a year earlier, including a 4% increase in same-store sales. For the nine-months ended September 30, 2007, sales rose 16% to \$82.7 million from \$71.2 million compared to the same period in 2006, including a 5% increase in same-store sales.

“We are pleased that our business continues to deliver solid growth and profitability”, said Jeremy Horwitz, President and Chief Executive Officer. “We continue to invest prudently in the Fund’s people and operations. We believe this is the right strategy to build a future growth platform for the Fund. The Fund opened 2 new stores during the third quarter. Year-to-date we have opened 17 new stores (14 net openings), relocated 2 stores, and renovated 9 stores.

We continue to expand our market presence in some of Ontario’s high profile malls under the Sterling and Joneve banners, 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 we serve.

During 2006 we started a new banner, Gia, as a concept store on Robson Street in Vancouver. On October 3, 2007 we opened our second Gia store in the Metrotown Mall in Burnaby, British Columbia. In June 2007 we launched another new concept with our first Sterling Outlet store in Calgary, Alberta. We continue to experiment and innovate with these concepts and may expand both to further locations in the future”.

On October 3, 2007 the Fund closed an offering of \$25 million of convertible unsecured subordinated debentures (the “Debentures”) at a price of \$1,000 per debenture. The Debentures bear interest at an annual rate of 6.5% payable semi-annually in arrears on October 31 and April 30 in each year commencing April 30, 2008. The maturity date for the Debentures is October 31, 2012. The offering was completed on a “bought deal” basis by a syndicate of underwriters led by CIBC World Markets Inc. that included BMO Nesbitt Burns Inc., Canaccord Capital Corporation and TD Securities Inc.

Net proceeds from the financing will be used to repay existing indebtedness, fund our new store expansion projects and for general corporate purposes. Since our initial public offering (“IPO”) on July 12, 2005, the

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Fund has opened 46 stores (41 net openings), renovated 16 stores and relocated 8 stores. From our IPO until the time of this financing we had utilized our credit facilities to finance the maintenance and capital expenditure associated with our store openings, renovations and relocations, as well as to finance the inventory required to support our rapid growth.

## **Financial results for the three and nine-month periods ended September 30, 2007**

During the third quarter of 2007, sales rose 14% to \$30.5 million from \$27.0 million, including a 4% increase in same-store sales.

For the nine-month period ended September 30, 2007, sales increased to \$82.7 million or 16% over the same period in 2006, including a 5% increase in same-store sales.

Cost of sales as a percentage of sales for the three and nine-month periods ended September 30, 2007 were 43.6% and 43.3%, respectively, compared to 41.9% and 44.3% for the same periods during 2006. The increase in cost of sales during the quarter relates to mark-downs taken during the period. Mark-downs are taken to clear inventory as the selling-season progresses and to recognize impairment in the net realizable value of inventory. Under our current inventory valuation methodology the Fund recognizes those markdowns in cost of sales in the period that the mark-down is made, rather than during the period the inventory is sold. Higher mark-downs were off-set by the strength of the Canadian dollar which contributed towards reducing our cost of sales, as approximately one-third of our purchases are denominated in U.S. dollars and utilization of inventory obsolescence reserves.

Effective January 1, 2008 the Fund will adopt the Canadian Institute of Chartered Accountant's new policy on inventory valuation, which will result in markdowns impacting cost of sales during the period of sale. For further explanation of this issue, see "New Accounting Standards Issued" in the Fund's Management's Discussion and Analysis.

Store and selling expenses for the three and nine-month periods ended September 30, 2007 were 34.6% and 36.0% of sales compared to 33.0% and 34.1%, respectively, for the same periods during 2006. Store and selling expenses have a fixed underlying core with a variable component on top. The Fund has entered into 71 new leases since its IPO (46 new stores and 25 renewals). The Fund's new stores have a higher rent profile than the average store base, which has resulted in higher occupancy charges. The Fund has also taken a proactive approach to renewing and renovating its existing store base. Renewals typically come at higher rates; however, the Fund has achieved the security of long-term cost certainty in these established markets, as most of these leases have longer terms. As the new stores mature and the existing, renewed stores continue to build sales, the Fund expects occupancy costs as a percentage of sales to fall.

Employee costs were also higher as a percentage of sales during the three and nine-month periods ended September 30, 2007. Staff training and other staffing related store opening costs were higher due to the number of store openings. We also experienced pressure on wages due to tight employment markets.

General and administrative ("G&A") expenses for the three and nine-month periods ended September 30, 2007 were 5.3% and 6.2% of sales, respectively, compared to 5.4% and 5.8% during the same periods in 2006. During the quarter, G&A costs were in line with the same period in the prior year. For the nine-month period, the increase is primarily due to increases in head office staff and IT expenditures to facilitate the Fund's growth.



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Adjusted EBITDA for the three and nine-month periods ended September 30, 2007 was 16.0% and 14.0% of sales, respectively, compared to 19.3% and 15.4% for the same periods during 2006. The decrease in Adjusted EBITDA during these comparative periods is largely attributable to the increases in store and selling expenses and G&A, as well as the mark-downs taken with respect to the Spring 2007 season, each of which are discussed above.

During the twelve months ended September 30, 2007, the Fund achieved a Return on Invested Capital (“ROIC”)<sup>1</sup> of 66%.

The Fund’s payout ratio, as calculated using the Canadian Securities Administrators’ (“CSA”) recently amended National Policy 41-201 “Income Trusts and Other Indirect Offerings” guidance on standardized preparation and disclosure of distributable cash for income trusts, for the three and nine-month periods ended September 30, 2007 was 68.9% and 392.2%, respectively compared to 110.4% and 132.0% for the same periods in 2006. The higher payout ratio during the nine-months ended September 30, 2007 reflects the fact that cash provided by operations and standardized distributable cash were lower than during the same period in 2006. This is due to higher investments this year related to store openings, a greater number of store renovations and relocations, and increased working capital related to our substantial growth.

Management believes that our present level of distributions is sustainable. For further discussion, please refer to the Fund’s Management’s Discussion and Analysis.

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.

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**STERLING SHOES INCOME FUND**  
**Consolidated Balance Sheets**  
(Unaudited - expressed in thousands of dollars, except per unit and number of unit figures.)

	As at September 30, 2007	As at December 31, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ -	\$ 2,845
Accounts receivable	826	465
Inventory	32,563	18,640
Prepaid expenses and deposits	962	625
	<u>34,351</u>	<u>22,575</u>
LEASEHOLDS AND EQUIPMENT	16,234	13,283
GOODWILL	828	828
INTANGIBLE ASSETS	49,041	49,041
	<u>\$ 100,454</u>	<u>\$ 85,727</u>

**LIABILITIES AND UNITHOLDERS' EQUITY**

<b>CURRENT</b>		
Operating loan	\$ 4,873	\$ -
Accounts payable and accrued liabilities	21,818	13,895
Distributions payable	1,116	4,218
	<u>27,807</u>	<u>18,113</u>
FUTURE INCOME TAXES	7,724	-
TERM LOAN	7,932	5,000
DEFERRED LEASE INDUCEMENTS	1,577	1,535
NON-CONTROLLING INTEREST	11,113	12,231
UNITHOLDERS' EQUITY	44,302	48,848
	<u>\$ 100,454</u>	<u>\$ 85,727</u>

**STERLING SHOES INCOME FUND**

**Consolidated Statements of Income and Comprehensive Income**

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

	Three-month period ended		Nine-month period ended	
	Sept 30, 2007	Sept 30, 2006	Sept 30, 2007	Sept 30, 2006
SALES	\$ 30,483	\$ 26,968	\$ 82,675	\$ 71,173
COST OF SALES	13,315	11,308	35,870	31,541
GROSS MARGIN	<u>17,168</u>	<u>15,660</u>	<u>46,805</u>	<u>39,632</u>
<b>EXPENSES</b>				
Store and selling	10,566	8,895	29,774	24,291
General and administrative	1,643	1,483	5,194	4,144
	<u>12,208</u>	<u>10,378</u>	<u>34,968</u>	<u>28,435</u>
Income before interest, amortization and non-controlling interest	4,960	5,282	11,837	11,197
Interest expense	194	90	488	233
Loss on disposal of leaseholds and equipment	-	-	(5)	43
Amortization of leaseholds and equipment	716	687	2,121	1,888
Amortization of deferred financing costs	-	9	-	27
INCOME BEFORE NON-CONTROLLING INTEREST AND TAXES	<u>4,049</u>	<u>4,497</u>	<u>9,233</u>	<u>9,006</u>
Future income taxes	-	-	7,724	-
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	<u>4,049</u>	<u>4,497</u>	<u>1,509</u>	<u>9,006</u>
NON-CONTROLLING INTEREST	815	904	317	1,814
NET INCOME (LOSS)	<u>\$ 3,234</u>	<u>\$ 3,594</u>	<u>\$ 1,192</u>	<u>\$ 7,192</u>
Basic and diluted net income per unit	\$ 0.61	\$ 0.68	\$ 0.22	\$ 1.35
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



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### Consolidated Statements of Unitholders' Equity

(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>	\$	-	-	-	\$ -
Issuance of units on initial public offering		53,135	-	-	<b>53,135</b>
Issuance costs		(5,288)	-	-	<b>(5,288)</b>
Net income for the 173-day period		-	3,549	-	<b>3,549</b>
Distributions declared during the 173-day period		-	-	(3,537)	<b>(3,537)</b>
<b>BALANCE, December 31, 2005</b>	\$	47,847	3,549	(3,537)	\$ <b>47,859</b>
Net income		-	1,668	-	<b>1,668</b>
Distributions declared		-	-	(1,428)	<b>(1,428)</b>
<b>BALANCE, March 31, 2006</b>	\$	47,847	5,216	(4,965)	\$ <b>48,098</b>
Net income for the period		-	1,930	-	<b>1,930</b>
Distributions declared		-	-	(1,592)	<b>(1,592)</b>
<b>BALANCE, June 30, 2006</b>	\$	47,847	7,146	(6,557)	\$ <b>48,436</b>
Net income		-	3,594	-	<b>3,594</b>
Distributions declared		-	-	(1,674)	<b>(1,674)</b>
<b>BALANCE, September 30, 2006</b>	\$	47,847	13,562	(12,561)	\$ <b>50,356</b>
Net income		-	2,822	-	<b>2,822</b>
Distributions declared		-	-	(4,330)	<b>(4,330)</b>
<b>BALANCE, December 31, 2006</b>	\$	47,847	13,562	(12,561)	\$ <b>48,848</b>
Net income for the period		-	1,807	-	<b>1,807</b>
Distributions declared		-	-	(1,913)	<b>(1,913)</b>
<b>BALANCE, March 31, 2007</b>	\$	47,847	15,369	(14,474)	\$ <b>48,742</b>
Net income (loss) for the period		-	(3,849)	-	<b>(3,849)</b>
Distributions declared		-	-	(1,913)	<b>(1,913)</b>
<b>BALANCE, June 30, 2007</b>	\$	47,847	11,520	(16,386)	\$ <b>42,981</b>
Net income (loss) for the period		-	3,234	-	<b>3,234</b>
Distributions declared		-	-	(1,913)	<b>(1,913)</b>
<b>BALANCE, September 30, 2007</b>	\$	47,847	14,754	(18,299)	\$ <b>44,302</b>



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### 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	
	Sept 30, 2007	Sept 30, 2006	Sept 30, 2007	Sept 30, 2006
<b>OPERATING ACTIVITIES</b>				
Net Income (Loss)	\$ 3,234	\$ 3,594	\$ 1,192	\$ 7,192
Items not involving cash				
Future income taxes	-	-	7,724	-
Amortization of leaseholds and equipment	716	687	2,121	1,888
Amortization of deferred financing costs	-	9	-	27
Amortization of deferred lease inducements	(85)	(86)	(238)	(265)
Loss on disposal of leaseholds and equipment	-	-	-	43
Non-controlling interest	815	904	317	1,814
	<b>4,681</b>	<b>5,107</b>	<b>11,116</b>	<b>10,700</b>
Change in non-cash working capital balances related to operations				
Accounts receivable	(31)	(328)	(359)	(398)
Inventory	(6,260)	(5,431)	(13,923)	(8,491)
Prepaid expenses and deposits	(85)	(380)	(337)	(534)
Accounts payable and accrued liabilities	6,053	3,743	7,924	5,211
	<b>(324)</b>	<b>(2,396)</b>	<b>(6,696)</b>	<b>(4,212)</b>
Cash provided by operating activities	<b>4,357</b>	<b>2,711</b>	<b>4,420</b>	<b>6,488</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of leaseholds and equipment	(1,479)	(2,156)	(5,078)	(5,174)
Proceeds from disposal of assets	-	-	5	-
Lease inducements received	110	159	278	237
Cash used in investing activities	<b>(1,369)</b>	<b>(1,997)</b>	<b>(4,795)</b>	<b>(4,937)</b>
<b>FINANCING ACTIVITIES</b>				
Capital expenditure loan	-	-	2,932	-
Operating loan	(597)	1,358	4,873	1,525
Payment of distributions	(2,391)	(2,072)	(10,275)	(6,786)
Cash used in financing activities	<b>(2,988)</b>	<b>(713)</b>	<b>(2,470)</b>	<b>(5,261)</b>
<b>CASH INFLOW (OUTFLOW) DURING THE PERIOD</b>	<b>0</b>	<b>(0)</b>	<b>(2,845)</b>	<b>(3,710)</b>
CASH, BEGINNING OF PERIOD	0	0	2,845	3,710
<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	\$ 194	\$ 90	\$ 488	\$ 233

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 standard time (2:00 pm EST) on Tuesday, November 13, 2007. The number to participate in the teleconference is Toll-free: 800-769-8320 or 416-695-9701. 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 27, 2007 at 800-408-3053, the passcode will be 3241507.

## *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)).

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 reflected 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 assumptions 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 141 stores (as at November 12, 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 September 30, 2007 were \$114.1 million. The Fund’s units are listed on the Toronto Stock Exchange under the symbol SSI.UN. The Fund’s convertible unsecured subordinated debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

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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