

Sterling

STERLING SHOES LIMITED PARTNERSHIP

FOR IMMEDIATE RELEASE

March 22, 2007

STERLING SHOES INCOME FUND

FUND ANNOUNCES 2006 RESULTS AND ANOTHER SPECIAL DISTRIBUTION

HIGHLIGHTS:

- **Supplementary special distribution of \$0.15 per Unit raises 2006 special distribution to \$0.47 per Unit.**
- **Return on Invested Capital was 75% during 2006.**
- **Same-store sales grew 11% during fourth quarter 2006 over the same period in 2005.**
- **Same-store sales grew 9% for the year ended December 31, 2006 over 2005.**
- **Overall sales increased 30% during fourth quarter 2006 over the same period in 2005.**
- **Overall sales increased 25% for the year ended December 31, 2006 over 2005.**

VANCOUVER, BC, March 22, 2007 – Sterling Shoes Income Fund (TSX: SSI.UN) today reported its financial results for the quarter and year-ended December 31, 2006 and announced a supplementary special distribution.

“Our consistent, strong performance has enabled us to reward our unitholders with a series of special distributions, as well as significant increases in our annual distributions since completing our initial public offering in July 2005,” said Jeremy Horwitz, President and Chief Executive Officer of the Fund.

“The \$0.15 per unit special distribution that we are announcing today supplements the \$0.32 per unit special distribution that we announced on December 18, 2007. This special distribution will allow the Fund to distribute all of its taxable income for 2006 to our unitholders. These special distributions are due to the strong financial results of our business, which we are also announcing today. The supplementary special distribution will be payable on March 30, 2007 to unitholders of record on December 29, 2006.

Distributions have increased 58% over the level of distributions established at the Fund’s IPO on July 12, 2005. Distributions declared for 2006 (including special distributions) were \$1.70 per trust unit compared to a targeted annual distribution of \$1.075 per trust unit at the time of the Fund’s initial public offering on July 12, 2005.

We are also pleased to announce that the Fund’s Board of Trustees has approved a cash distribution of \$0.12 per trust unit for the period March 1, 2007 to March 31, 2007, payable on April 16, 2007 to unitholders of record at the close of business on March 30, 2007.

freedman
shoes

Sterling

Joneve

SHOE
WAREHOUSE

Sterling

STERLING SHOES LIMITED PARTNERSHIP

There are three key things I'd like to comment on with respect to our financial results – our return on invested capital, same-store sales growth, and new-store growth. We consider these to be the key building blocks to value creation in our business.

We realized a Return on Invested Capital (“ROIC”) of 74.5% during 2006. We consider ROIC to be a fundamental measure of value creation demonstrating our ability to generate strong returns on the capital employed in our business.

During the fourth quarter of 2006 we achieved same-store sales growth of 11% compared to the same period in 2005. Same store sales growth for the year-ended December 31, 2006 was 9% compared to 2005. These strong results are evidence of the strength of our business.

Above and beyond same-store growth, we also achieved strong new-store growth. Our expansion strategy continues to unfold as planned. We opened 24 stores during 2006: twenty stores in the Ontario market, one store in Alberta and three stores in British Columbia. We closed one under-performing store in Regina, Saskatchewan. Overall sales increased 30% during fourth quarter 2006 compared to the same period in 2005. Sales for the year-ended December 31, 2006 increased 25% compared to 2005.

This top-line growth was achieved in an environment of increasing margins and profitability. Gross margins as a percentage of sales increased to 54.3% in 2006 compared to 49.9% last year.

Adjusted EBITDA grew by 57.8% to \$15.2 million during 2006, compared to \$9.2 million in 2005.

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. Since our IPO, the Fund has opened 29 stores (27 net openings), renovated 7 stores and relocated 6 stores. Despite these openings, renovations and relocations, 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. During 2007 we expect to open 10 to 15 new stores.”

Financial Results for the quarter and year-ended December 31, 2006

During the fourth quarter of 2006, sales rose 30% to \$31.4 million from \$24.1 million a year earlier, as same-store sales increased by 11%. For the year-ended December 31, 2006, sales increased to \$102.6 million, or 25% over 2005, including same-store sales growth of 9%.

Cost of sales as a percentage of sales for the quarter and year-ended December 31, 2006 were 48.7% and 45.7% respectively, compared to 52.9% and 50.1% for the same periods during 2005. The decrease in cost of sales during fourth quarter 2006 compared to the same period during 2005 is primarily a result of procurement cost savings. Cost of sales for the corresponding twelve-month period in 2005 are not

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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 quarter and year-ended December 31, 2006 were 31.8% and 33.4% of sales respectively, compared to 31.6% and 33.0% for the same periods during 2005. Store and selling expenses are largely variable as a percentage of sales. The Fund opened 24 new stores during 2006 and employed additional resources in those stores to ensure that new staff were properly trained and that new stores opened smoothly. These one-time start up costs contributed to higher store and selling expenses.

General and administrative (“G&A”) expenses for the quarter and year-ended December 31, 2006 were 5.6% and 5.8% of sales respectively, compared to 7.7% and 14.2% during the same periods in 2005. After deducting management fees and bonuses and normalizing management salaries relating to the fiscal year ended January 31, 2005, G&A expenses were 4.4% of sales for the twelve months ended December 31, 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 (which prior to July 12, 2005 consisted primarily of management’s participation through their ownership interests in the profits of the business), including bonuses and the Fund’s obligations under its long-term incentive plan.

Income before non-controlling interest for the fourth quarter of 2006 was \$3.5 million, or \$0.53 per unit (diluted – \$0.53 per unit). Income before non-controlling interest for the year-ended December 31, 2006 was \$12.5 million, or \$1.89 per unit (diluted – \$1.89 per unit).

Adjusted EBITDA during the fourth quarter of 2006 was \$4.3 million, or 13.6% of sales. This represents \$0.65 per unit. Adjusted EBITDA during the year-ended December 31, 2006 was \$15.2 million, or 14.8% of sales. This represents \$2.29 per unit.

Distributable Cash generated during the quarter and year-ended December 31, 2006 was \$3.7 million and \$12.3 million, respectively, from which the Fund declared distributions totaling \$5.4 million and \$11.3 million, or \$0.815 per unit and \$1.70 per unit, respectively.

freedman
shoes

Sterling

Joneve

SHOE
WAREHOUSE

Sterling

STERLING SHOES LIMITED PARTNERSHIP

STERLING SHOES INCOME FUND

Consolidated Balance Sheet

	As at December 31, 2006	As at December 31, 2005
ASSETS		
CURRENT		
Cash	\$ 2,845,053	\$ 3,710,066
Accounts receivable	464,887	96,709
Inventory	18,639,781	15,338,152
Prepaid expenses and deposits	624,761	242,567
	<u>22,574,482</u>	<u>19,387,494</u>
LEASEHOLDS AND EQUIPMENT	13,282,668	9,602,058
DEFERRED FINANCING COSTS	0	90,631
GOODWILL	827,809	827,809
INTANGIBLE ASSETS	49,041,000	49,041,000
	<u>\$ 85,725,959</u>	<u>\$ 78,948,992</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Operating loan	\$ -	\$ -
Accounts payable and accrued liabilities	13,892,894	10,969,899
Distributions payable	4,217,581	1,895,667
	<u>18,110,474</u>	<u>12,865,566</u>
TERM LOAN	5,000,000	5,000,000
DEFERRED LEASE INDUCEMENTS	1,535,237	1,260,257
NON-CONTROLLING INTEREST	12,231,467	11,964,635
UNITHOLDERS' EQUITY	48,848,781	47,858,534
	<u>\$ 85,725,959</u>	<u>\$ 78,948,992</u>

freedman
shoes

Sterling

Joneve

SHOE
WAREHOUSE

Sterling

STERLING SHOES LIMITED PARTNERSHIP

STERLING SHOES INCOME FUND

Consolidated Statement of Income

	Three-month period ended Dec 31, 2006	Year-ended Dec 31, 2006
SALES	\$ 31,415,470	\$ 102,588,168
COST OF SALES	15,305,720	46,846,197
GROSS MARGIN	16,109,750	55,741,971
EXPENSES		
Store and selling	10,001,439	34,292,406
General and administrative	1,768,141	5,912,180
	11,769,580	40,204,586
Income before interest, amortization and non-controlling interest	4,340,170	15,537,385
Interest expense	93,779	326,428
Loss on disposal of leaseholds and equipment	74,902	117,883
Amortization of leaseholds and equipment	578,593	2,466,932
Amortization of deferred financing costs	63,745	90,632
INCOME BEFORE NON-CONTROLLING INTEREST	3,529,152	12,535,510
NON-CONTROLLING INTEREST	707,189	2,521,261
NET INCOME	\$ 2,821,963	\$ 10,014,249
Basic and diluted net income per unit	\$ 0.53	\$ 1.88
Basic weighted average number of units outstanding	5,313,488	5,313,488
Diluted weighted average number of units outstanding	6,641,860	6,641,860

STERLING SHOES INCOME FUND

Consolidated Statement of Unitholders' Equity

For the year ended December 31, 2006

	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	-	10,014,249	-	10,014,249
Distributions declared	-	-	(9,024,003)	(9,024,003)
BALANCE, END OF PERIOD	\$ 47,846,787	13,563,144	(12,561,151)	\$ 48,848,781

freedman
shoes

Sterling

Joneve

SHOE
WAREHOUSE

Sterling

STERLING SHOES LIMITED PARTNERSHIP

STERLING SHOES INCOME FUND

Consolidated Statement of Cash Flows

	Three-month period ended Dec 31, 2006	Year-ended Dec 31, 2006
OPERATING ACTIVITIES		
Net Income	\$ 2,821,756	\$ 10,014,249
Items not involving cash		
Amortization of leaseholds and equipment	578,593	2,466,932
Amortization of deferred financing costs	63,745	90,632
Amortization of deferred lease inducements	(55,343)	(319,949)
Loss on disposal of leaseholds and equipment	74,902	117,883
Non-controlling interest	707,189	2,521,261
	4,190,841	14,891,008
Change in non-cash working capital balances related to operations		
Accounts receivable	29,659	(368,178)
Inventory	5,189,258	(3,301,629)
Prepaid expenses and deposits	151,725	(382,194)
Accounts payable and accrued liabilities	(2,288,980)	2,921,565
	3,081,662	(1,130,436)
Cash provided by operating activities	7,272,503	13,760,573
INVESTING ACTIVITIES		
Acquisition of leaseholds and equipment	(1,088,275)	(6,262,426)
Lease inducements received	358,201	594,929
Acquisition of Sterling Shoes Inc.	0	0
Cash used in investing activities	(730,074)	(5,667,497)
FINANCING ACTIVITIES		
Proceeds from credit facility	0	0
Financing costs incurred	0	0
Initial public offering of Fund Units, net of expenses	0	0
Operating loan	0	0
Payment of distributions	(2,171,888)	(8,958,089)
Cash used in financing activities	(2,171,888)	(8,958,089)
CASH INFLOW (OUTFLOW) DURING THE PERIOD	4,370,541	(865,013)
CASH, BEGINNING OF PERIOD	(1,525,488)	3,710,067
CASH, END OF PERIOD	\$ 2,845,053	\$ 2,845,054
Supplemental cash flow information		
Interest paid	\$ 93,779	\$ 326,428

On October 31, 2006, the Minister of Finance announced proposed changes to the income tax treatment of “flow-through entities”, including income trusts (the “October 31 Proposals”). The October 31 Proposals propose to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the Unitholders. Pursuant to proposed amendments released by the Department of Finance on June 29, 2006, the dividend tax credit applicable to certain “eligible dividends” will increase. The dividend deemed to be paid by a trust pursuant to the October 31 Proposals should also be deemed to an “eligible dividend” and would therefore benefit from the enhanced gross-up and dividend tax credit rules of the Tax Act. Existing trusts will have a four-year transition period and, subject to the qualification below, will not be subject to the new rules until 2011. However, assuming the October 31 Proposals are ultimately enacted in the form currently proposed, the implementation of such proposals would be expected to result in adverse tax consequences to the Fund and



Sterling

STERLING SHOES LIMITED PARTNERSHIP

certain Unitholders (including most particularly Unitholders that are tax exempt or non-residents of Canada) and may impact cash distributions from the Fund.

In light of the foregoing, the October 31 Proposals may reduce the value of the Units, which would be expected to increase the cost to the Fund of raising capital in the public capital markets. The October 31 Proposals are also expected to make the Units less attractive as an acquisition currency. As a result, it may become more difficult for the Fund to compete effectively for acquisition opportunities. There can be no assurance that the Fund will be able to reorganize its legal and tax structure to substantially mitigate the expected impact of the October 31 Proposals.

Further, the October 31 Proposals provide that, while there is no intention to prevent “normal growth” during the transitional period, any “undue expansion” could result in the transition period being “revisited”, presumably with the loss of the benefit to the Fund of that transitional period. As a result, the adverse tax consequences resulting from the proposals could be realized sooner than 2011.

On December 15, 2006, the Department of Finance issued guidelines with respect to what is meant by “normal growth” in this context. The guidance limits the amount of new equity that can be issued if an entity wishes to retain its current tax status until 2011. The government has stated that the maximum growth permissible for the period from 2007 to 2010 is the greater of \$50 million each year and (note- if not used in a specific year the following % limits are cumulative):

- in 2007, 40% of the entities October 31, 2006 market capitalization
- in 2008, 20% of the entities October 31, 2006 market capitalization
- in 2009, 20% of the entities October 31, 2006 market capitalization
- in 2010, 20% of the entities October 31, 2006 market capitalization

The Fund’s market capitalization as of the close of trading on October 31, 2006, having regard only to its issued and outstanding publicly-traded Units, was approximately \$100 million, which means the Fund’s “safe harbour” equity growth amount for the period ending December 31, 2007 is approximately \$50 million, and for each of calendar 2008, 2009 and 2010 the minimum amount of \$50 million would apply.

On March 19, 2007 the federal government tabled its budget for 2007, which included the October 31 Proposals. It is not known at this time when the October 31 Proposals will be enacted by Parliament and, if enacted, what impact the changes 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) and on the Fund’s website at www.sterlingshoesincomefund.com.

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 Friday, March 23, 2007. 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 April 6, 2007 at 888-509-0081.



Sterling

STERLING SHOES LIMITED PARTNERSHIP

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).

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.

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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 127 stores (as at March 22, 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 year-ended December 31, 2006 were \$102.6 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, 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.

freedman
shoes

Sterling

Joneve

SHOE
WAREHOUSE