

Sterling

STERLING SHOES LIMITED PARTNERSHIP

2580 Viscount Way Richmond BC Canada V6V 1N1 TEL 604.270.6114 FAX 604.278.7751

FOR IMMEDIATE RELEASE

May 11, 2010

STERLING SHOES INCOME FUND (TSX: SSI.UN)

FUND ANNOUNCES FIRST QUARTER 2010 RESULTS

HIGHLIGHTS:

- Gross margin increased to 50.3% during the three-month period ended March 31, 2010, compared to 43.4% during the same period in 2009;
- EBITDA rose by \$1,575 thousand to \$629 thousand (2.3% as a percentage of sales), during the three-month period ended March 31, 2010 compared to a negative EBITDA of \$946 thousand (-3.4% as a percentage of sales) during the same period in 2009;
- Net debt at March 31, 2010 was \$4.7 million compared to \$7.9 million a year earlier.
- Development testing and training for the new information technology system continued with implementation targeted during 2010.

VANCOUVER, BC, May 11, 2010 – Sterling Shoes Income Fund (the “Fund”) today reported its financial results for the quarter ended March 31, 2010.

The Fund showed improvement during the first quarter of 2010 compared to the same period in the prior year, posting higher gross margin and EBITDA results. “The past year saw significant challenges in the retail economy. I am pleased to report that, notwithstanding those challenges, we remained focused on improving the efficiency and profitability of our business to better position Sterling Shoes as the economy improves.” said Jeremy Horwitz, President and Chief Executive Officer.

The Fund continues to work on the announced conversion to a corporation effective July 1, 2010 pending unitholder approval. “We are undertaking the conversion to a corporation at this time to simplify our business structure.” said Rick Mahler, Chairman of the Board of Trustees. “The income fund structure is a less desirable form of business enterprise for Sterling Shoes and the proposed corporate structure will result in lower income taxes being paid on the taxable income of Sterling Shoes in 2010. The conversion will also eliminate the risks and uncertainty facing the Fund as a result of the tax legislation relating to income trusts.”

As previously announced, Jeremy Horwitz, currently the Fund’s President and CEO, has resigned effective June 22, 2010. “On behalf of the Board, I would like to sincerely thank Jeremy for his exceptional leadership and dedicated service to Sterling Shoes and wish him and his family well in the future” said Mahler.

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Financial Results for the three months ended March 31, 2010

During the first quarter of 2010, sales were \$26.9 million, representing a decrease of 3% from \$27.7 million a year earlier.

Cost of sales as a percentage of sales for the three months ended March 31, 2010 was 49.7% compared to 56.6% for the same period during 2009. The Fund was able to substantially increase its gross margins in the first quarter of 2010 due in part to management initiatives taken during 2009 to reduce inventory levels and make room for higher margin inventory. Gross margin as a percentage of sales for the three-month period ended March 31, 2010 was 50.3% compared to 43.4% for the same period during 2009.

Cost of sales was also positively impacted by the appreciation of the Canadian dollar versus the US dollar compared to early 2009. Substantially all footwear sold in Canada is manufactured outside of Canada. Consequently, the cost of substantially all of our purchases is exposed to currency fluctuations either directly or indirectly. During the three-month period ended March 31, 2010, approximately 43% of product purchases were denominated in U.S. dollars. During the quarter ended March 31, 2010 the Canadian dollar was worth approximately 20% more against the U.S. dollar than during the same period in 2009. This has decreased purchase prices, inventory valuation and cost of sales.

Store and selling expenses for the three-months ended March 31, 2010 were 41.5% of sales, compared to 40.7% for the same period during 2009. Store and selling expenses have a fixed underlying core with a large variable component, primarily consisting of expenses relating to occupancy and employee costs. While there was a reduction of overall store and selling expenses arising from a comprehensive review of the business processes in 2009 to manage the business through the current economic volatility; the overall effect as a percentage of sales was nullified by the decrease in sales in the first quarter of 2010.

General and administrative (“G&A”) expenses for the three-months ended March 31, 2010 were 6.5% of sales, compared to 6.1% during the same period in 2009. The increase is due to additional costs required to support the legacy system while the new information technology system is being implemented.

Adjusted EBITDA for the three-months ended March 31, 2010 was 2.0% of sales compared to negative 4.1% for the same period during 2009. This increase of \$1.7 million is predominantly due to the reduction in cost of sales discussed above.

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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 March 31, 2010	As at December 31, 2009
ASSETS		
CURRENT		
Cash	\$ 308	4,119
Accounts receivable	443	195
Inventory	41,164	36,446
Prepaid expenses and deposits	234	187
	<u>42,149</u>	<u>40,947</u>
LEASEHOLDS AND EQUIPMENT	18,867	19,595
INTANGIBLE ASSETS	16,623	16,623
	<u>\$ 77,639</u>	<u>\$ 77,165</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	\$ 16,358	\$ 15,006
Term Loan	5,000	5,000
	<u>21,358</u>	<u>20,006</u>
FUTURE INCOME TAXES	2,364	2,364
CONVERTIBLE DEBENTURES	22,699	22,520
DEFERRED LEASE INDUCEMENTS	1,961	2,057
UNITHOLDERS' EQUITY	29,257	30,218
	<u>\$ 77,639</u>	<u>\$ 77,165</u>

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STERLING SHOES INCOME FUND

Consolidated Statements of Loss and Comprehensive Loss

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

	Three-month period ended	
	Mar 31, 2010	Mar 31, 2009
SALES	\$ 26,855	\$ 27,672
COST OF SALES	13,337	15,675
GROSS MARGIN	13,518	11,997
EXPENSES		
Store and selling	11,146	11,256
General and administrative	1,743	1,687
	12,889	12,943
Loss before interest, amortization, and taxes	629	(946)
Interest expense	644	652
Loss on disposal of leaseholds and equipment	-	66
Amortization of leaseholds and equipment	946	764
LOSS BEFORE TAXES	(961)	(2,428)
Future income taxes [note 11]	-	-
NET LOSS AND COMPREHENSIVE LOSS	(961)	(2,428)
Basic and diluted net loss per unit	\$ (0.14)	\$ (0.37)
Basic weighted average number of units outstanding	6,641,860	6,641,860
Diluted weighted average number of units outstanding	7,823,885	7,823,885

STERLING SHOES INCOME FUND

Consolidated Statements of Unitholders' Equity

For the three-month period ended March 31, 2010

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

	Unitholders' capital [note 7]	Equity component of Debentures [note 6]	Cumulative earnings	Cumulative distributions	Cumulative deficit	Unitholders' equity
BALANCE, December 31, 2008	59,809	2,657	33,740	(36,800)	\$ (3,060)	\$ 59,406
Net loss			(2,428)		(2,428)	(2,428)
Distributions declared				(566)	(566)	(566)
BALANCE, March 31, 2009	\$ 59,809	2,657	31,312	(37,366)	(6,054)	\$ 56,412
Net loss			(25,205)		(25,205)	(25,205)
Distributions declared				(989)	(989)	(989)
BALANCE, December 31, 2009	\$ 59,809	2,657	6,107	(38,355)	(32,248)	\$ 30,218
Net loss			(961)		(961)	(961)
Distributions declared				0	0	0
BALANCE, March 31, 2010	\$ 59,809	2,657	5,146	(38,355)	(33,209)	\$ 29,257

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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	
	Mar 31, 2010	Mar 31, 2009
OPERATING ACTIVITIES		
Net loss	\$ (961)	\$ (2,428)
Items not involving cash		
Amortization of leaseholds and equipment	946	764
Loss on disposal of leaseholds and equipment	-	66
Amortization of deferred lease inducements	(96)	(188)
Accreted interest expense	179	161
	<u>68</u>	<u>(1,625)</u>
Change in non-cash working capital balances related to operations		
Accounts receivable	(248)	419
Inventory	(4,718)	(4,380)
Prepaid expenses and deposits	(47)	(122)
Accounts payable and accrued liabilities	1,352	5,091
	<u>(3,661)</u>	<u>1,008</u>
Cash used in operating activities	<u>(3,593)</u>	<u>(617)</u>
INVESTING ACTIVITIES		
Acquisition of leaseholds and equipment	(218)	(1,202)
Lease inducements received	-	32
Cash used in investing activities	<u>(218)</u>	<u>(1,170)</u>
FINANCING ACTIVITIES		
Operating loan [note 5]	-	2,451
Payment of distributions	-	(664)
Cash provided by financing activities	<u>-</u>	<u>1,787</u>
CASH OUTFLOW DURING THE PERIOD	(3,811)	-
CASH, BEGINNING OF PERIOD	4,119	-
CASH, END OF PERIOD	\$ 308	\$ -
Supplemental cash flow information		
Interest paid	\$ 59	\$ 85

Conference Call Notification

Please note the Fund's conference call will take place at 9:00 am Pacific Daylight Time (12:00 pm EDT) on Wednesday, May 12, 2010. The number to participate in the teleconference is Toll-free: 866-225-0198 or 416-340-8061. 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 26, 2010 using the passcode 3471300 at 800-408-3053 or 416-695-5800.

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,

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including, but not limited to, the following factors: general economic conditions and markets and, in particular, the potential impact of the current economic downturn, the cost and availability of capital, the possibility of deterioration in the Company's working capital position, the impact on the Company's liquidity if it were to go offside of the covenants in its debt facilities, our ability to maintain profitability and manage growth, risks associated with leasing and expansion, competition, inventory and sourcing risk, ability to identify and respond to changing consumer fashion preferences, risks associated with international purchasing, reliance on key personnel, dependence on consumer spending, unseasonable weather conditions, uncertainties arising from world events, intellectual property risks, foreign exchange fluctuations on imported merchandise, labour relations, seasonality and fluctuations in cash distributions, fluctuations in distributable cash based on our performance, restrictions on potential growth, future issuances of Units by the Fund or future disposition of Units held by SSI Investments Inc., income tax matters, changes in accounting standards, including the transition to IFRS, and increases in interest rates. 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 six separate retail banners: Sterling, Joneve, Shoe Warehouse, Freedman Shoes and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 160 stores (as at May 11, 2010) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Fund currently employs over 1,300 employees. The Fund's units are listed on the Toronto Stock Exchange under the symbol SSI.UN. The Fund's convertible debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

For further information, please visit us at www.SterlingShoesIncomeFund.com, or contact:

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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.

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