

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

FOR IMMEDIATE RELEASE

August 7, 2009

STERLING SHOES INCOME FUND (TSX: SSI.UN)

FUND ANNOUNCES SECOND QUARTER 2009 RESULTS

VANCOUVER, BC, August 7, 2009 – Sterling Shoes Income Fund (the “Fund”) today reported its financial results for the quarter ended June 30, 2009.

“This quarter’s results reflect the difficult retail sales environment that we are operating in” said Jeremy Horwitz, President and Chief Executive Officer.

“The continuing recession has resulted in lower sales due to consumers cutting back on discretionary spending. In response to consumer and competitive pressures the retail atmosphere has become more promotional than previous seasons. Management is continuing its efforts to conserve cash through aggressive cost reductions and inventory management. During the second quarter 2009, we improved our inventory position by approximately 8%, on a units per store basis, compared to the same time last year. We believe our efforts will steer Sterling towards sustainable long-term earnings and growth once economic conditions stabilize.”

Financial Results for the three months ended June 30, 2009

During the second quarter of 2009, sales rose 4.1% to \$30.6 million from \$29.4 million in the same period last year. Same store sales fell by 4.6% for the three-month period ended June 30, 2009 compared to the same period in 2008.

Cost of sales as a percentage of sales for the three months ended June 30, 2009 was 54.4% compared to 49.0% for the same period during 2008. Due to unfavourable economic conditions during the quarter-ended June 30, 2009 more promotional activity took place during that quarter than during the same period in 2008 which contributed to weaker gross margin.

Cost of sales was also impacted by the deterioration of the Canadian dollar versus the U.S. dollar earlier in 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. During the three and six-month periods ended June 30, 2009, approximately 43% and 34% of product purchases were denominated in U.S. dollars, respectively. During the quarter ended June 30, 2009 the Canadian dollar was worth approximately 16% less against the U.S. dollar than during the same period in 2008. This has increased purchase prices, inventory valuation and cost of sales.

Store and selling expenses for the three months ended June 30, 2009 were 37.1% of sales, compared to 36.6% for the same period during 2008. Store and selling expenses have a fixed underlying core with a large variable component, primarily consisting of expenses relating to occupancy and employee costs. General and administrative (“G&A”) expenses for the three-months ended June 30, 2009 were 5.4% of sales, no change from the same period in 2008. We continue to review business processes to seek ways to reduce overall costs.

Adjusted EBITDA for the three-months ended June 30, 2009 was 2.2% of sales compared to 8.8% for the same period during 2008.

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Financial Results for the six months ended June 30, 2009

For the six-month period ended June 30, 2009, sales rose 7.2% to \$58.3 million from \$54.4 million in the same period last year. Same store sales fell by 2.1% for the six-month period ended June 30, 2009 compared to the same period in 2008.

Cost of sales as a percentage of sales for the six months ended June 30, 2009 was 55.5% compared to 52.0% for the same period during 2008, for reasons similar to those impacting the three-month period ending June 30, 2009.

Store and selling expenses for the six months ended June 30, 2009 were 38.8% of sales, compared to 39.2% for the same period during 2008. Store and selling expenses have fallen as a percentage of sales year-to-date as a result of management's actions to reduce costs. Reducing store payroll costs, as a percentage of sales is a key area of focus in this current economic climate.

General and administrative ("G&A") expenses for the six-months ended June 30, 2009 were 5.7% of sales, compared to 6.7% for the same period in 2008. G&A expenses have been reduced in nearly all cost categories as a result of our comprehensive review of business processes to manage the business through the current economic volatility.

Adjusted EBITDA for the six-months ended June 30, 2009 was negative 0.8% of sales compared to 2.0% for the same period during 2008. The decrease in adjusted EBITDA over the same period in the previous year is due to the decline in profitability discussed.

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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 June 30, 2009	As at December 31, 2008
ASSETS		
CURRENT		
Cash	\$ -	\$ -
Accounts receivable	313	885
Inventory	39,185	39,892
Prepaid expenses and deposits	436	484
	<u>39,934</u>	<u>41,261</u>
LEASEHOLDS AND EQUIPMENT	20,420	19,996
GOODWILL	828	828
INTANGIBLE ASSETS	49,041	49,041
	<u>\$ 110,223</u>	<u>\$ 111,126</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ 3,658	\$ 467
Accounts payable and accrued liabilities	14,993	14,951
Distributions payable	124	221
	<u>18,775</u>	<u>15,639</u>
FUTURE INCOME TAXES	7,000	7,000
TERM LOAN	5,000	5,000
CONVERTIBLE DEBENTURES	22,174	21,847
DEFERRED LEASE INDUCEMENTS	1,881	2,234
UNITHOLDERS' EQUITY	55,393	59,406
	<u>\$ 110,223</u>	<u>\$ 111,126</u>

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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		Six-month period ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
SALES	\$ 30,618	\$ 29,405	\$ 58,290	\$ 54,353
COST OF SALES	16,667	14,395	32,341	28,270
GROSS MARGIN	13,951	15,008	25,949	26,083
EXPENSES				
Store and selling	11,364	10,768	22,620	21,289
General and administrative	1,654	1,574	3,342	3,634
	13,018	12,340	25,962	24,922
Income before interest, amortization and non-controlling interest	933	2,668	(13)	1,161
Interest expense	644	690	1,296	1,152
Loss (Gain) on disposal of leaseholds and equipment	168	333	232	333
Amortization of leaseholds and equipment	772	779	1,535	1,530
(LOSS) / INCOME BEFORE TAXES	(651)	866	(3,076)	(1,856)
Future income taxes recovery	-	-	-	(724)
NET (LOSS) / INCOME AND COMPREHENSIVE (LOSS) / INCOME	(651)	866	(3,076)	(1,132)
Basic and diluted net (loss) / income per unit	\$ (0.10)	\$ 0.13	\$ (0.46)	\$ (0.19)
Basic weighted average number of units outstanding	6,641,860	5,313,488	6,641,860	5,313,488
Diluted weighted average number of units outstanding	7,823,885	6,641,860	7,823,885	6,641,860

STERLING SHOES INCOME FUND

Consolidated Statements of Unitholders' Equity

For the six month period ended June 30, 2009

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

	Unitholders' capital	Equity component of Debentures	Accumulated earnings	Accumulated distributions	Accumulated deficit	Total
BALANCE, December 31, 2007	\$ 47,847	2,657	18,909	(22,444)	(3,535)	\$ 46,968
Reclassification of Class D LP units from non-controlling interest	11,962		4,801	(5,611)	(810)	11,152
Re-valuation of inventory per CICA Handbook s.3031 [note 2]			3,306	0	3,306	3,306
Net loss for the period			(1,131)	-	(1,131)	(1,131)
Distributions declared			-	(4,981)	(4,981)	(4,981)
BALANCE, June 30, 2008	\$ 59,809	2,657	25,885	(33,037)	(7,152)	\$ 55,314
Net income for the period	-	-	7,855	-	7,855	7,855
Distributions declared	-	-	-	(3,764)	(3,764)	(3,764)
BALANCE, December 31, 2008	\$ 59,809	2,657	33,740	(36,800)	(3,060)	\$ 59,406
Net loss for the period	-	-	(3,076)	-	(3,076)	(3,076)
Distributions declared	-	-	-	(937)	(937)	(937)
BALANCE, June 30, 2009	\$ 59,809	2,657	30,665	(37,738)	(7,073)	\$ 55,393

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STERLING SHOES INCOME FUND

Consolidated Statements 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, 2009	June 30, 2008	June 30, 2009	June 30, 2008
OPERATING ACTIVITIES				
Net (Loss) Income	\$ (651)	\$ 866	\$ (3,076)	\$ (1,131)
Items not involving cash				
Future income taxes recovery	-	-	-	(724)
Amortization of leaseholds and equipment	772	779	1,535	1,530
Loss on disposal of leaseholds and equipment	168	333	232	
Amortization of deferred lease inducements	(250)	(95)	(438)	(184)
Accreted interest expense	167	295	327	429
	206	2,178	(1,420)	253
Change in non-cash working capital balances related to operations				
Accounts receivable	151	75	572	556
Inventory	5,087	(14)	707	(7,730)
Revaluation of inventory per CICA HB S3031 [note 2]	-	-	-	3,306
Prepaid expenses and deposits	170	(76)	48	(23)
Accounts payable and accrued liabilities	(5,046)	(4,763)	42	(594)
	362	(4,778)	1,369	(4,485)
Cash provided by / (used in) operating activities	568	(2,600)	(51)	(4,232)
INVESTING ACTIVITIES				
Acquisition of leaseholds and equipment	(991)	(2,095)	(2,190)	(3,689)
Lease inducements received	53	58	85	132
Cash used in investing activities	(938)	(2,037)	(2,105)	(3,557)
FINANCING ACTIVITIES				
Operating loan	741	1,985	3,191	1,985
Payment of distributions	(371)	(2,823)	(1,035)	(8,056)
Cash provided by / (used in) financing activities	370	(838)	2,156	(6,071)
CASH INFLOW OUTFLOW DURING THE PERIOD	-	(5,475)	-	(13,860)
CASH, BEGINNING OF PERIOD	-	5,475	-	13,860
CASH, END OF PERIOD	\$ -	\$ -	\$ -	\$ -
Supplemental cash flow information				
Interest paid	\$ 876	\$ 932	\$ 961	\$ 932

Conference Call Notification

Please note the Fund's conference call will take place at 11:00 am Pacific standard time (2:00 pm EDT) on Tuesday, August 11, 2009. The number to participate in the teleconference is Toll-free: 866-223-7781 or 416-641-6124. 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 25, 2009 using the passcode 5156106 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, 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

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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 August 7, 2009) 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. 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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(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.

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