

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

FOR IMMEDIATE RELEASE

March 18, 2010

STERLING SHOES INCOME FUND (TSX: SSI.UN)

FUND ANNOUNCES FOURTH QUARTER AND FULL YEAR 2009 RESULTS

FOURTH QUARTER HIGHLIGHTS:

- Net bank debt improved to \$0.9 million at December 31, 2009 from \$11.8 million at September 30, 2009.
- Sales were \$41.2 million in fourth quarter 2009 compared to \$42.5 million in 2008
- Gross margin increased to 56.3% of sales in fourth quarter 2009, compared to 56.0% last year
- Store and selling expenses and G&A expenses both decreased in fourth quarter 2009 as a percentage of sales compared to 2008
- Adjusted EBITDA rose to \$8.1 million or 19.8% of sales in fourth quarter 2009 compared to \$7.8 million or 18.3% of sales in 2008

VANCOUVER, BC, March 18, 2010 – Sterling Shoes Income Fund (the “Fund”) today reported its financial results for the fourth quarter and year ended December 31, 2009.

“We are pleased with our fourth quarter performance”, said Jeremy Horwitz, President and Chief Executive Officer. “Despite challenging economic conditions and lower sales, Sterling improved gross margins, lowered operating and administrative costs and increased profitability compared to the same period last year. We also reduced inventory levels, changed our product mix, restricted maintenance and capital expenditures, and suspended distributions to Unitholders.”

“These actions have improved our cost competitiveness and reduced our net debt, thereby providing us with greater business flexibility. We believe that our business is currently in a much better position to weather future economic volatility than it was twelve months ago. We are also positioning Sterling for sustainable long-term earnings and growth once economic conditions stabilize.”

Financial Results for the three months ended December 31, 2009

During the three months ended December 31, 2009, sales declined 3% to \$41.2 million from \$42.5 million a year earlier. Same store sales declined by 5.6% compared to the same period during 2008.

Cost of sales as a percentage of sales for the three months ended December 31, 2009 was 43.7% compared to 44.0% for the same period during 2008. Efforts to reduce inventory levels during the first three quarters of 2009 allowed Sterling to make room for higher margin inventory, which contributed to higher margins during the three month period ended December 31, 2009. These efforts were offset in part by the cost of heavy promotional activity required to generate sales, clear inventory and respond to competitive forces.

Store and selling expenses for the three months ended December 31, 2009 were 30.7% of sales, compared to 31.5% 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. The Fund undertook a comprehensive review of business processes during earlier months which resulted in

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greater operating flexibility and a reduction of store and selling expenses in the last quarter of 2009. The Fund did not open any new stores during the three months ended December 31, 2009.

General and administrative (“G&A”) expenses for the three months ended December 31, 2009 were 5.8% of sales, compared to 6.2% during the same periods in 2008. G&A expenses have been reduced in nearly all cost categories as a result of the Fund’s comprehensive review of business processes to manage the business through the current economic volatility.

Net income was \$6.2 million for the three months ended December 31, 2009 compared to \$6.5 million during the same period in 2008.

Financial Results for the year ended December 31, 2009

Sales for full year 2009 were \$131.2 million, an increase of 0.3% over the \$130.8 million for 2008. Same store sales declined by 5.7% compared to 2008.

Cost of sales as a percentage of sales for the year ended December 31, 2009 was 52.7% compared to 49.2% in 2008. The following factors contributed to this increase:

- Consumer confidence and the overall retail market (fashion and apparel in particular) were weak. The Fund continued its promotional activity to generate sales, reduce inventory and respond to competitive forces.
- Greater promotional activity in 2009 contributed to weaker gross margins.
- Cost of sales was negatively impacted by the weakness of the Canadian dollar versus the US dollar compared to 2008;

Store and selling expenses for the year ended December 31, 2009 were 35.7% of sales, compared to 35.8% for 2008. The Fund’s review of business processes included changes in all areas of our cost structure, particularly store payroll costs.

G&A expenses for the year ended December 31, 2009 were 5.8% of sales, compared to 6.1% during 2008. As mentioned above G&A expenses have been reduced in nearly all cost categories as a result of the Fund’s comprehensive review of business processes.

Net loss was \$27.6 million for the year ended December 31, 2009 compared to net income of \$6.7 million in 2008. This loss was primarily attributed to a \$33.2 million non-recurring, non-cash impairment charge to the carrying value of the Fund’s goodwill & intangible assets, partially offset by a \$4.6 million non-recurring, non-cash recovery of future income taxes.. Excluding these items, the Fund earned net income of \$1.0 million in 2009.

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STERLING SHOES INCOME FUND

Consolidated Balance Sheets

(Expressed in thousands of dollars, except per unit and number of unit figures.)

	As at December 31, 2009	As at December 31, 2008
ASSETS		
CURRENT		
Cash	\$ 4,119	\$ -
Accounts receivable	195	885
Inventory	36,446	39,892
Prepaid expenses and deposits	187	484
	<u>40,947</u>	<u>41,261</u>
LEASEHOLDS AND EQUIPMENT	19,595	19,996
GOODWILL	-	828
INTANGIBLE ASSETS	16,623	49,041
	<u>\$ 77,165</u>	<u>\$ 111,126</u>

LIABILITIES AND UNITHOLDERS' EQUITY

CURRENT

Bank indebtedness	\$ -	\$ 467
Accounts payable and accrued liabilities	15,006	14,951
Distributions payable	0	221
Term loan	5,000	0
	<u>20,006</u>	<u>15,639</u>
FUTURE INCOME TAXES	2,364	7,000
TERM LOAN	0	5,000
CONVERTIBLE DEBENTURES	22,520	21,847
DEFERRED LEASE INDUCEMENTS	2,057	2,234
UNITHOLDERS' EQUITY	30,218	59,406
	<u>\$ 77,165</u>	<u>\$ 111,126</u>

STERLING SHOES INCOME FUND

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Twelve-month period ended	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
SALES	\$ 41,195	\$ 42,520	\$ 131,170	\$ 130,767
COST OF SALES	18,011	18,703	69,127	64,306
GROSS MARGIN	<u>23,184</u>	<u>23,817</u>	<u>62,043</u>	<u>66,461</u>
EXPENSES				
Store and selling	12,664	13,384	46,785	46,784
General and administrative	2,383	2,646	7,616	8,016
	<u>15,047</u>	<u>16,030</u>	<u>54,401</u>	<u>54,800</u>
Income before interest, amortization and non-controlling interest	8,137	7,787	7,642	11,661
Interest expense	669	676	2,637	2,322
Loss (Gain) on disposal of leaseholds and equipment	367	-	627	333
Impairment of goodwill and intangible assets	-	-	33,246	-
Amortization of leaseholds and equipment	863	658	3,401	3,006
INCOME / (LOSS) BEFORE TAXES	<u>6,238</u>	<u>6,453</u>	<u>(32,269)</u>	<u>6,000</u>
Future income taxes recovery	-	-	(4,636)	(724)
NET INCOME / (LOSS) AND COMPREHENSIVE INCOME / (LOSS)	<u>6,238</u>	<u>6,453</u>	<u>(27,633)</u>	<u>6,724</u>
Basic net income / (loss) per unit	\$ 0.94	\$ 0.97	\$ (4.16)	\$ 1.06
Diluted net income / (loss) per unit	0.82	0.90	(4.16)	1.06
Basic weighted average number of units outstanding	6,641,860	6,641,860	6,641,860	6,328,217
Diluted weighted average number of units outstanding	7,823,885	7,823,885	7,823,885	7,510,242

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STERLING SHOES INCOME FUND

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2009 and December 31, 2008

(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)	\$ 46,969
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			3,306		3,306	3,306
Net income for the period			6,724		6,724	6,724
Distributions declared				(8,745)	(8,745)	(8,745)
BALANCE, December 31, 2008	\$ 59,809	2,657	33,740	(36,800)	3,393	\$ 59,406
Net loss for the period			(27,633)		(27,633)	(27,633)
Distributions declared				(1,555)	(1,555)	(1,555)
BALANCE, December 31, 2009	\$ 59,809	2,657	6,108	(38,355)	(25,794)	\$ 30,218

STERLING SHOES INCOME FUND

Consolidated Statements of Cash Flows

(Expressed in thousands of dollars, except per unit and number of unit figures.)

	Three-month period ended		Twelve-month period ended	
	Dec 31, 2009	Dec 31, 2008	Dec 31, 2009	Dec 31, 2008
OPERATING ACTIVITIES				
Net Income (Loss)	\$ 6,238	\$ 6,453	\$ (27,633)	\$ 6,724
Items not involving cash				
Impairment of goodwill and intangible assets	-	-	33,246	-
Future income taxes recovery	-	-	(4,636)	(724)
Amortization of leaseholds and equipment	863	658	3,401	3,006
Loss on disposal of leaseholds and equipment	367	-	627	333
Amortization of deferred lease inducements	(11)	(77)	(550)	(359)
Accreted interest expense	175	158	673	604
Revaluation of inventory per CICA HB S3031	-	-	-	3,306
	7,632	7,192	5,128	12,890
Change in non-cash working capital balances related to operations				
Accounts receivable	456	(373)	690	(112)
Inventory	6,560	5,762	3,445	(10,858)
Prepaid expenses and deposits	213	316	297	524
Accounts payable and accrued liabilities	(3,340)	(8,193)	55	(3,464)
	3,889	(2,488)	4,487	(13,910)
Cash provided by / (used in) operating activities	11,521	4,704	9,615	(1,020)
INVESTING ACTIVITIES				
Acquisition of leaseholds and equipment	(346)	(1,160)	(3,626)	(6,687)
Lease inducements received	96	676	374	809
Cash used in investing activities	(250)	(484)	(3,252)	(5,878)
FINANCING ACTIVITIES				
Term loan		5,000		5,000
Operating loan	(6,781)	(7,338)	(467)	467
Payment of distributions	(371)	(1,882)	(1,777)	(12,429)
Cash used in financing activities	(7,152)	(4,220)	(2,244)	(6,962)
CASH INFLOW / (OUTFLOW) DURING THE PERIOD	4,119	-	4,119	(13,860)
CASH, BEGINNING OF PERIOD	-	-	-	13,860
CASH, END OF PERIOD	\$ 4,119	\$ -	\$ 4,119	\$ -
Supplemental cash flow information				
Interest paid	\$ 906	\$ 817	\$ 1,963	\$ 1,749

Conference Call Notification

Please note the Fund's conference call will take place at 9:00 am Pacific standard time (12:00 pm EST) on Friday, March 19, 2010. The number to participate in the teleconference is Toll-free: 866-226-1792 or 416-340-2216. 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 2, 2010 using the passcode 3471300 at 800-408-3053 or 416-695-5800.

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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 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, 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 162 stores (as at March 18, 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:

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.

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