

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 12, 2011

STERLING SHOES INC. (TSX: SSI)
(formerly Sterling Shoes Income Fund)

STERLING ANNOUNCES FIRST QUARTER 2011 RESULTS

HIGHLIGHTS:

- Successfully launched our new ERP system at our 12 Freedman stores in January 2011. The system was launched at our 74 Sterling, Joneve and Gia stores on April 1, 2011 and at our 75 Shoe Warehouse stores on May 1, 2011.
- Reduced inventory by \$7.1 million compared to a year-earlier, a decrease of 17.2%.
- The freshness of our inventory improved from a year earlier due to our aggressive approach to clearing out older inventory. The Company had 45% less aged inventory than at the same point a year earlier.
- Store and selling expenses decreased by \$0.9 million compared to last year.
- Logistics and inventory carrying costs were \$0.7 million lower compared to a year earlier.
- Continued re-branding of store banners. A new concept store for Shoe Warehouse is opening in Mississauga, Ontario in May 2011.

VANCOUVER, BC, May 12, 2011 – Sterling Shoes Inc. (the “Company” or “Sterling”), formerly Sterling Shoes Income Fund (the “Fund”), today reported its financial results for the quarter ended March 31, 2011.

“Most notably, we have continued with our repositioning program, which affects all areas of our business,” said Mr. Dave Alves, President and CEO. “We have streamlined the organization in a number of ways, including adjustments to inventory, operations, departments and people. We have completed the task of reducing aged inventory and have also re-merchandised the stores to create a more inviting, friendly and fashion-forward environment. By reducing clutter and clearly communicating to our customers with appropriate price point signage alongside an improved product assortment, we are creating an environment where our customers want to shop. ”

Sairose Kassam joined Sterling on March 28, 2011 as Vice President, Supply Chain, and is successfully leading and developing the supply chain and merchandise-planning group to improve the efficiency and effectiveness of our store network. We are maximizing product flow and capitalizing on store intelligence to provide stores with improved allocation of product to allow our stores to realize their full potential and meet the demands of our customers.

The new pricing strategy that was recently implemented across all banners, and specifically promoted in Shoe Warehouse locations, allows us to rebuild the confidence of our customers and offer competitive prices on a daily basis, reducing the need for constant promotion to stimulate sales. We are also strengthening our vendor alliances, strategically shifting towards more branded products in our banners.

During this quarter, we also successfully launched our new enterprise resource planning (“ERP”) system and have turned on all planned areas of its functionality. The last of our banners, Shoe Warehouse, went live on May 1, 2011. The system has significantly increased visibility into our business and the timeliness of our inventory reporting. This new system adds to our existing knowledge of customer

Sterling

Joneve

SHOE WAREHOUSE

**freedman
shoes**

gia shoes

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

profiles for each store, which will aid us in delivering the right shoe to the right place at the right time in the right quantity. We are looking to further capitalize on this new source of information to manage and run our operations with increased insight and efficiencies.

We have also made significant progress with our strategic brand review and are continuing the re-branding of our banners. New store designs will be launching in select markets May 2011. We believe these revitalized brands and store environments will resonate more strongly with our customers and better reflect our commitment to deliver the best complement of brands and pricing.

Though we have not seen the desired positive sales result yet, we believe that as we work through this transitional period of reducing and liquidating inventory and adjusting the product mix, we will ultimately create that opportunity.

Financial Results for the three-month period ended March 31, 2011

Sales were \$22.0 million during the three-month period ended March 31, 2011, representing a decrease of 18% over the \$26.9 million in the same period in 2010. Same-store sales for the three-month period ended March 31, 2011 decreased by 19.1%, compared to the same periods during 2010.

The decline in sales resulted primarily from the strategic changes underway in the business and unseasonable weather. The reduction of inventory balances during fourth quarter 2010 and the creation of our merchandise planning and supply chain organization created temporary imbalances in our product allocation and mix. Unseasonable weather and a late start to Spring have also affected our sales.

Cost of sales as a percentage of sales for the three-month period ended March 31, 2011 was 55.7%, compared to 49.7% for the same period during 2010.

The inventory clearance and markdown strategy initiated during late 2010 carried on during the first quarter of 2011, during what is traditionally a clearance season. These clearance sales are historically at a low margin, and are somewhat offset late in the first quarter by the sale of new product for the early Spring-season. During first quarter 2011, due to product mix and weather factors, we did not receive a sales (and margin) lift from early-Spring sales.

Store and selling expenses for the three-months ended March 31, 2011 was 46.4% of sales, compared to 41.5% for the same period during 2010. With the re-organization of the store operations group, several initiatives have been commenced to streamline store operations. The Company began to realize savings with respect to employee costs both in-store and throughout its distribution network. Store and selling expenses were reduced by \$0.9 million compared to a year ago.

General and administrative (“G&A”) expenses for the three-months ended March 31, 2011 was 10.2% of sales, compared to 6.5% during the same period in 2010, primarily due to investments in human resource, strategy and business intelligence initiatives.

EBITDA for the three-months ended March 31, 2011 was -12.3% of sales, compared to 2.3% for the same period during 2010. The variance in EBITDA is accounted for by the reduction in sales and the increase in cost of sales and general and administration expenses. These items were somewhat offset by a reduction in store and selling expenses during the period.

Sterling

Soneese

SHOE WAREHOUSE

freedman
shoes

gia shoes

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

STERLING SHOES INC. Consolidated Statement of Financial Position (Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)	As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
ASSETS			
CURRENT			
Cash	\$ -	7,444	4,119
Accounts receivable	924	359	195
Inventory	33,822	28,614	36,446
Prepaid expenses and deposits	500	336	187
	<u>35,246</u>	<u>36,753</u>	<u>40,947</u>
NON-CURRENT			
Leaseholds & Equipment	17,632	17,969	19,595
Deferred Income Taxes	313	-	-
Intangible Assets	16,623	16,623	16,623
	<u>34,568</u>	<u>34,592</u>	<u>36,218</u>
	<u>\$ 69,814</u>	<u>\$ 71,345</u>	<u>\$ 77,165</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT			
Bank indebtedness	\$ 1,150	\$ -	\$ -
Accounts payable and accrued liabilities	17,828	16,225	15,006
Term loan	1,000	1,000	5,000
	<u>19,978</u>	<u>17,225</u>	<u>20,006</u>
NON-CURRENT			
Deferred Income Taxes	-	793	2,364
Term Loan	3,250	3,500	-
Convertible Debentures	23,463	23,264	22,520
Deferred Lease Inducements	1,570	1,653	2,057
	<u>28,282</u>	<u>29,210</u>	<u>26,941</u>
SHAREHOLDERS' EQUITY			
Shareholders' capital	59,809	59,809	59,809
Equity component of Debentures	2,657	2,657	2,657
Accumulated Deficit	(40,913)	(37,556)	(32,248)
	<u>21,553</u>	<u>24,910</u>	<u>30,218</u>
	<u>\$ 69,814</u>	<u>\$ 71,345</u>	<u>\$ 77,165</u>

Sterling

Soneese

SHOE WAREHOUSE

freedman
shoes

gia shoes

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

STERLING SHOES INC.

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Three-month period ended	
	March 31, 2011	March 31, 2010
SALES	\$ 22,011	\$ 26,855
COST OF SALES	12,259	13,337
GROSS MARGIN	9,752	13,518
EXPENSES		
Store and selling	10,222	11,146
General and administrative	2,238	1,743
Amortization of leaseholds and equipment	790	946
	13,250	13,835
Income/(Loss) before interest, financing expense and disposal	(3,498)	(317)
Interest and financing expense	667	644
Unrealized loss on foreign exchange	146	-
Loss on disposal of leaseholds and equipment	152	-
NET LOSS BEFORE TAXES	(4,463)	(961)
Deferred income taxes recovery	1,106	-
NET LOSS AND TOTAL COMPREHENSIVE LOSS	(3,357)	(961)
Basic and Diluted net income/(loss) per share	\$ (0.51)	\$ (0.14)
Basic weighted average number of shares outstanding	6,641,860	6,641,860
Diluted weighted average number of shares outstanding	7,823,885	7,823,885

STERLING SHOES INC.

Consolidated Statement of Changes in Equity

For the Three month period ended March 31, 2011

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Number of shares	Par value of shares	Shareholders' capital	Equity		Shareholders' equity
				component of Debentures	Accumulated deficit	
BALANCE, January 1, 2010	6,641,860	\$ 9.00	59,809	2,657	(32,248)	\$ 30,218
Net loss for the period			-	-	(961)	(961)
BALANCE, March 31, 2010	6,641,860	\$ 9.00	59,809	2,657	(33,209)	\$ 29,257
Net loss for the period			-	-	(4,347)	(4,347)
BALANCE, December 31, 2010	6,641,860	\$ 9.00	59,809	2,657	(37,556)	\$ 24,910
Net loss for the period			-	-	(3,357)	(3,357)
BALANCE, March 31, 2011	6,641,860	\$ 9.00	59,809	2,657	(40,913)	\$ 21,553

Sterling

Sorelle

SHOE WAREHOUSE

freedman

aia shoes

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

STERLING SHOES INC.

Consolidated Statements of Cash Flows

(Unaudited - Expressed in thousands of Canadian dollars, except per share and number of share figures.)

	Three-month period ended	
	March 31, 2011	March 31, 2010
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net Income/ (Loss)	\$ (3,357)	\$ (961)
Items not involving cash		
Deferred income taxes recovery	(1,106)	-
Amortization of leaseholds and equipment	790	946
Loss on disposal of leaseholds and equipment	152	-
Amortization of deferred lease inducements	(82)	(96)
Accreted interest expense	199	179
	(3,404)	68
Change in non-cash working capital balances related to operations		
Accounts receivable	(565)	(248)
Inventory	(5,208)	(4,718)
Prepaid expenses and deposits	(164)	(47)
Accounts payable and accrued liabilities	1,602	1,352
	(4,335)	(3,661)
Cash used in operating activities	(7,739)	(3,593)
INVESTING ACTIVITIES		
Acquisition of leaseholds and equipment	(605)	(218)
Cash used in investing activities	(605)	(218)
FINANCING ACTIVITIES		
Term loan	(250)	-
Cash used in financing activities	(250)	-
CASH OUTFLOW DURING THE PERIOD	(8,594)	(3,811)
CASH, BEGINNING OF PERIOD	7,444	4,119
CASH, END OF PERIOD	\$ (1,150)	\$ 308
Supplemental cash flow information		
Interest paid	\$ 62	\$ 59

Conference Call Notification

Please note the Company's conference call will take place at 10:00 am Pacific Standard Time (1:00 pm EST) on Friday, May 13, 2011. The number to participate in the teleconference is Toll-free: 877-240-9772 or 416-340-8530. 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 27, 2011 using the passcode 6348363 at 800-408-3053 or 905-694-9451.

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,

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

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 Shares by the Company or future disposition of Shares 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 Inc.

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 Shoes and Gia. Since 1987, Sterling Shoes has grown from five shopping mall locations to 162 stores (as at May 12, 2011) located in high-traffic, high-visibility locations within enclosed shopping malls, on high streets and in strip malls. The Company currently employs over 1,100 employees. The Company's shares are listed on the Toronto Stock Exchange under the symbol SSI. The Company's convertible debentures are listed on the Toronto Stock Exchange under the symbol SSI.DB.

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

Daniel S. Gumprich
Chief Financial Officer
(604) 270-6114

Additional information about Sterling Shoes Inc. can be found in the disclosure documents filed by Sterling Shoes Inc. with the securities regulatory authorities, available at www.sedar.com.

Sterling

Joneve

SHOE WAREHOUSE

**freedman
shoes**

gia shoes