

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 11, 2011

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

STERLING ANNOUNCES SECOND QUARTER 2011 RESULTS

HIGHLIGHTS:

During the second quarter of 2011:

- EBITDA increased to \$556 thousand compared to \$55 thousand a year earlier.
- Gross margin improved to 54.8% compared to 46.7% a year earlier.
- Reduced inventory units by 8% compared to a year-earlier.
- Aged inventory was 34% lower than at the same point a year earlier due to aggressive clearing of dated products.
- Store and selling expenses decreased by \$0.5 million and \$1.5 million in the three and six month periods compared to last year.
- Freight distribution and warehousing costs were \$0.4 million and \$1.3 million lower in the three and six month periods compared to last year.
- Completed the launch of our new ERP system Company-wide.
- However, sales during the three and six month periods ended June 30, 2011 were \$24.3 million and \$46.3 million representing decreases of 15.0% and 16.5% respectively.

VANCOUVER, BC, August 11, 2011 – Sterling Shoes Inc. (the “Company” or “Sterling”), formerly Sterling Shoes Income Fund (the “Fund”), reported its financial results for the quarter ended June 30, 2011.

“We continued to make progress with our repositioning program and began to see some successes delivered to the bottom line during the second quarter of 2011,” said Mr. Dave Alves, President and CEO.

We focused on four key areas: inventory, operations, merchandising, and branding. We completed a key initiative of reducing aged inventory and further reduced seasonal inventory on hand to keep our stock fresh and relevant.

Operationally, we sought ways to maximize efficiencies. We reduced warehousing headcount during the first half of 2011, while increasing the physical capacity of the warehouse space in conjunction with retooling it to allow for an improved replenishment process flow. We further realigned roles within the organization and eliminated several redundant positions. The total charge associated with re-organization was \$170 thousand during the second quarter of 2011.

We are critically evaluating our stores and have identified a number of locations that we feel do not effectively reach our target customers or fit our long-term vision for our business. We are actively working to exit these locations. In the first six months of 2011, we closed three under-performing stores.

During the quarter, we successfully launched our new enterprise resource planning (“ERP”) system and are beginning to benefit from the planned areas of its functionality. The system has significantly increased

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visibility into our business and the timeliness of our inventory reporting. We are now testing additional functionalities such as customer relationship management and supply chain replenishment modules.

During this quarter, the review of the four multi-unit banners has progressed so that we now have documented brand platforms and brand stories. These provide the foundation and context not only for our marketing decisions moving forward, but also inform many operational decisions and the products we buy. We have also invested in augmenting our messaging and communication channels for the banners, and are conducting a phased introduction of the revitalized brands to the market. This has been a very exciting quarter for all of the banners as we move closer to having our customers see all the positive changes we have been making when they walk in our doors and see the enhanced store environments, the re-focused and improved product mix and the fresh brand messaging.

We have reached agreement in principle with our senior debt lender, the Bank of Montreal, to amend our credit facilities, subject to final documentation, (the "Amended Facility"). The Amended Facility will be a demand facility and will provide a maximum aggregate availability of \$27 million declining to \$20 million by October 31, 2011. The Amended Facility is intended to be a bridge to a full asset-backed lending facility (the "ABL Facility"). We are currently in negotiations with the Bank of Montreal regarding the terms for the ABL Facility.

The Amended Facility also requires us to meet certain conditions in order to maintain interest payments on the Convertible Debentures. We can give no assurance that we will be able to meet those conditions and make such interest payments.

Financial Results for the three-month and six-month period ended June 30, 2011

Sales were \$24.3 million during the three-month period ended June 30, 2011, representing a decrease of 15.0% from the \$28.6 million in the same period in 2010. For the six-month period ended June 30, 2011, sales were \$46.3 million compared to \$55.5 million in 2010 representing a 16.5% decline. Same-store sales for the three and six-month periods ended June 30, 2011 decreased by 17.0% and 18.2%, compared to the same periods during 2010. The decline in sales resulted primarily from the strategic changes underway in the business and were impacted by a weak retail environment amplified by higher fuel costs and adverse weather conditions

Cost of sales as a percentage of sales for the three-month and six-month periods ended June 30, 2011 was 45.2% and 50.2%, compared to 53.3% and 51.5% respectively for the same periods during 2010.

For the three-month period ended June 30, 2011 gross margin as a percentage of sales increased to 54.8% compared to 46.7% during the same period in 2010. For the six-month period ended June 30, 2011 gross margin as a percentage of sales increased to 49.8% compared to 48.5% during the same period in 2010.

Having significantly cleared our aged inventory and implemented a new pricing strategy, our product offering was fresher in the second quarter of 2011 as compared to the same quarter in 2010 and we realized higher gross-margins as a result of lower promotional activity on these products.

Store and selling expenses for the three and six-months ended June 30, 2011 were 43.3% and 44.8% of sales, compared to 38.7% and 40.0% for the same periods during 2010, respectively. In nominal dollar terms, store and selling expenses decreased by \$530 thousand and \$1.5 million for the three-month and six-month periods ending June 30, 2011 as a result of management's actions to reduce costs in managing the

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business. The overall effect of the cost reductions as a percentage of sales was nullified by the decrease in sales in the first half of 2011.

General and administrative (“G&A”) expenses decreased nominally by \$29 thousand for the three-month period ended June 30, 2011 compared to the same period in 2010 and G&A expenses increased by \$466 thousand for the six-month period ended June 30, 2011 also compared to the same period of the prior year. The Company has made investments in its human resources infrastructure and business intelligence initiatives with the expectation of lowering its overall cost structure. The benefits of these investments are shown in the reduction in cost of sales and store and selling expenses. Due to lower sales year-to-date in 2011, G&A expenses represent 9.2% and 9.6% of sales, compared to 7.9% and 7.2% during the same periods in 2010, respectively.

EBITDA for the three and six-months ended June 30, 2011 was 2.3% and negative 4.6% of sales, respectively, compared to 0.2% and 1.2% for the same periods during 2010. EBITDA improved in the three-month period ended June 30, 2011, compared to the same period in 2010, due to the increase in gross margin and reduction in store and selling expenses. Lower EBITDA as a percentage of sales for the six-month period ended June 30, 2011 is largely due to high promotional activity during the first quarter of 2011 and lower sales during the period.

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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 June 30, 2011	As at December 31, 2010
ASSETS		
CURRENT		
Cash	\$ -	7,444
Accounts receivable	430	359
Inventory	35,497	28,614
Prepaid expenses and deposits	399	336
	<u>36,326</u>	<u>36,753</u>
NON-CURRENT		
Leaseholds & Equipment	18,085	17,969
Deferred Income Taxes	577	-
Intangible Assets	16,623	16,623
	<u>35,285</u>	<u>34,592</u>
	<u>\$ 71,611</u>	<u>\$ 71,345</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Operating loan	\$ 8,780	\$ -
Accounts payable and accrued liabilities	12,864	16,225
Term loan	4,000	1,000
	<u>25,644</u>	<u>17,225</u>
NON-CURRENT		
Deferred Income Taxes	-	793
Term Loan	-	3,500
Convertible Debentures	23,670	23,264
Deferred Lease Inducements	1,553	1,653
	<u>25,223</u>	<u>29,210</u>
SHAREHOLDERS' EQUITY		
Shareholders' capital	59,809	59,809
Equity component of Debentures	2,657	2,657
Accumulated Deficit	-41,722	-37,556
	<u>20,744</u>	<u>24,910</u>
	<u>\$ 71,611</u>	<u>\$ 71,345</u>

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		Six-month period ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
SALES	\$ 24,313	\$ 28,606	\$ 46,324	\$ 55,461
COST OF SALES	10,998	15,234	23,257	28,571
GROSS MARGIN	13,315	13,372	23,067	26,890
EXPENSES				
Store and selling	10,527	11,057	20,749	22,203
General and administrative	2,232	2,261	4,469	4,004
Amortization of leaseholds and equipment	946	932	1,736	1,878
	13,705	14,249	26,954	28,085
Loss before interest, financing expense and disposal	(390)	(877)	(3,887)	(1,195)
Interest and financing expense	748	659	1,414	1,302
Unrealized (gain) / loss on foreign exchange	(63)	-	83	-
Loss on disposal of leaseholds and equipment	-	218	152	218
NET LOSS BEFORE TAXES	(1,075)	(1,754)	(5,536)	(2,715)
Deferred income taxes recovery	264	-	1,370	-
NET LOSS AND TOTAL COMPREHENSIVE LOSS	(811)	(1,754)	(4,166)	(2,715)
Basic and Diluted net loss per share	\$ (0.12)	\$ (0.26)	\$ (0.63)	\$ (0.41)
Basic weighted average number of shares outstanding	6,641,860	6,641,860	6,641,860	6,641,860
Diluted weighted average number of shares outstanding	7,823,885	7,823,885	7,823,885	7,823,885

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Consolidated Statement of Changes in Equity

For the Six month period ended June 30, 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 component of Debentures	Accumulated deficit	Shareholders' equity
BALANCE, January 1, 2010	6,641,860	\$ 9.00	59,809	2,657	(32,248)	\$ 30,218
Net loss for the period			-	-	(2,715)	(2,715)
BALANCE, June 30, 2010	6,641,860	\$ 9.00	59,809	2,657	(34,963)	\$ 27,503
Net loss for the period			-	-	(2,593)	(2,593)
BALANCE, December 31, 2010	6,641,860	\$ 9.00	59,809	2,657	(37,556)	\$ 24,910
Net loss for the period			-	-	(4,166)	(4,166)
BALANCE, June 30, 2011	6,641,860	\$ 9.00	59,809	2,657	(41,722)	\$ 20,744

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Consolidated Statements of Cash Flows

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

	Six-month period ended	
	June 30, 2011	June 30, 2010
OPERATING ACTIVITIES		
Net Loss	\$ (4,166)	\$ (2,715)
Items not involving cash		
Deferred income taxes recovery	(1,370)	-
Amortization of leaseholds and equipment	1,736	1,878
Loss on disposal of leaseholds and equipment	152	218
Amortization of deferred lease inducements	(170)	(226)
Accreted interest expense	404	363
	(3,414)	(482)
Change in non-cash working capital balances related to operations		
Accounts receivable	(71)	76
Inventory	(6,883)	(459)
Prepaid expenses and deposits	(63)	(70)
Accounts payable and accrued liabilities	(3,361)	(2,222)
	(10,378)	(2,675)
Cash (used in) / provided by operating activities	(13,792)	(3,157)
INVESTING ACTIVITIES		
Acquisition of leaseholds and equipment	(2,003)	(760)
Lease inducements received	71	-
Cash used in investing activities	(1,932)	(760)
FINANCING ACTIVITIES		
Term loan	(500)	-
Cash used in financing activities	(500)	-
CASH OUTFLOW DURING THE PERIOD	(16,224)	(3,917)
CASH, BEGINNING OF PERIOD	7,444	4,119
CASH, END OF PERIOD	\$ (8,780)	\$ 202
Supplemental cash flow information		
Interest paid	\$ 1,004	\$ 939

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, August 12, 2011. The number to participate in the teleconference is Toll-free: 800-355-4959 or 416-695-6623. 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 26, 2011 using the passcode 2341884 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

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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 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 160 stores (as at August 11, 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
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(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.

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