

FOR IMMEDIATE RELEASE

August 7, 2008

STERLING SHOES INCOME FUND

FUND ANNOUNCES SECOND QUARTER 2008 RESULTS

HIGHLIGHTS:

- Overall sales grew 4.1% during second quarter 2008 over second quarter 2007.
- 8 new stores opened to date in 2008, bringing the number of stores in operation to 149.

VANCOUVER, BC, August 7, 2008 – Sterling Shoes Income Fund (TSX: SSI.UN) today reported its financial results for the quarter ended June 30, 2008.

Sales for the quarter ended June 30, 2008 were \$29.4 million, 4.1% higher than the same period of 2007. Comparative store sales decreased by 2.0% and 0.9% respectively during the three and six-month periods ended June 30, 2008. During the second quarter, management believes that a challenging retail environment characterized by unseasonable weather conditions and consumer concerns about the economy contributed to a slowing in overall sales growth and in comparative store sales.

“Sterling enjoyed overall sales growth compared to the same period last year.” said Jeremy Horwitz, President and Chief Executive Officer. “We have achieved this by continuing to execute our expansion strategy with a focus on more balanced store openings between eastern and western Canada as well as on more Shoe Warehouse stores. We have opened 8 new stores since January 1, 2008 bringing the total number of stores in operation to 149 compared to 100 at the time of the company’s IPO in July 2005. We expect to open a total of 19 stores during 2008, most of these stores will be open for the busy back-to-school season.”

“As we continue to grow our business, we have been diligently working towards strengthening our infrastructure to better position ourselves for sustainable long-term earnings growth. One example of this effort is our current evaluation of a new information technology system to bolster our purchasing and distribution capability.

Distributions for second quarter 2008 totaled \$0.375 per unit, a 4.2% increase over the same period last year.

Financial Results for the three and six-months ended June 30, 2008

During the second quarter of 2008, sales rose 4.1% to \$29.4 million from \$28.2 million a year earlier.

Cost of sales as a percentage of sales for the quarter ended June 30, 2008 was 49.0% compared to 45.0% for the same period in 2007. On January 1, 2008 the Fund implemented a new inventory valuation

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standard, as required by CICA Handbook Section 3031, "Inventories" which resulted in a one-time, \$3.3 million increase in inventory at January 1, 2008, most of which has turned through cost of sales in the first two quarters of 2008, accounting for a significant portion of the change in cost of sales as a percentage of sales. Apart from the one-time effect noted above, management believes that over the course of twelve months, gross margins under the new inventory valuation standard and the previous inventory valuation model should be similar, the difference being related to timing. Please refer to the Fund's MD&A for additional details on the change of inventory valuation methodology.

Store and selling expenses for the quarter were \$10.8 million or 36.6% of sales compared to \$9.9 million or 35.2% for the same period during 2007. Store and selling expenses have a fixed underlying core with a large variable component. The Fund opened 5 new stores during the second quarter of 2008. New stores have a higher rent profile than the average store base, which has resulted in higher occupancy charges.

The Fund also employed additional resources in those stores to ensure that new staff were properly trained and that new stores opened smoothly. These start up costs coupled with pressure on labour costs, especially in Western Canada, contributed to higher store and selling expenses.

General and administrative ("G&A") expenses for the quarter ended June 30, 2008 were \$1.6 million or 5.4% of sales compared to \$1.9 million or 6.7% of sales during the same period in 2007. Lower professional fees and bonus accruals in the quarter were partially offset by on-going investments in the Fund's growth initiatives and higher salary costs during the three-months ended June 30, 2008.

Net income for the second quarter of 2008 was \$0.9 million, or \$0.13 net income per unit (diluted - \$0.13 net income per unit) compared to a net loss for the same period last year of \$3.8 million, or \$0.72 net loss per unit (diluted - \$0.72 net loss per unit). There was a non-cash charge of \$7.7 million in the second quarter of 2007 to record an estimated future income tax liability, which resulted in the net loss for the period.

Cash used in operating activities was \$2.6 million for the quarter ended June 30, 2008 compared to cash provided by operations of \$0.8 million for the same period in 2007. The change arose from lower net income before interest and taxes in addition to net changes in non-cash working capital balances related to operations for the second quarter of 2008 as compared to the same quarter in 2007.

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STERLING SHOES INCOME FUND	As at	As at
Consolidated Balance Sheets	June	December
(Unaudited - Expressed in thousands of dollars, except per unit and number of unit figures.)	30, 2008	31, 2007
ASSETS		
CURRENT		
Cash	\$ -	\$ 13,860
Accounts receivable	217	773
Inventory	36,764	29,034
Prepaid expenses and deposits	1,031	1,008
	38,013	44,675
LEASEHOLDS AND EQUIPMENT	18,474	16,648
GOODWILL	828	828
INTANGIBLE ASSETS	49,041	49,041
	\$ 106,355	\$ 111,192
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ 1,985	-
Accounts payable and accrued liabilities	17,821	\$ 18,415
Distributions payable	830	3,905
	20,636	22,320
FUTURE INCOME TAXES	7,000	7,724
CONVERTIBLE DEBENTURES	21,672	21,243
DEFERRED LEASE INDUCEMENTS	1,733	1,785
NON-CONTROLLING INTEREST	-	11,152
UNITHOLDERS' EQUITY	55,314	46,968
	\$ 106,355	\$ 111,192

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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, 2008	June 30, 2007	June 30, 2008	June 30, 2007
SALES	\$ 29,405	\$ 28,242	\$ 54,353	\$ 52,193
COST OF SALES	14,395	12,706	28,270	22,557
GROSS MARGIN	15,010	15,536	26,083	29,636
EXPENSES				
Store and selling	10,768	9,933	21,289	19,208
General and administrative	1,574	1,887	3,634	3,551
	12,342	11,820	24,923	22,758
Income before interest, amortization and non-controlling interest	2,668	3,716	1,160	6,878
Interest expense	689	185	1,152	294
Loss (Gain) on disposal of leaseholds and equipment	333	-	333	(5)
Amortization of leaseholds and equipment	779	616	1,530	1,404
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST AND TAXES	866	2,915	(1,855)	5,184
Future income taxes	-	7,724	(724)	7,724
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	866	(4,809)	(1,131)	(2,540)
NON-CONTROLLING INTEREST	-	(960)	-	(498)
NET INCOME (LOSS)	\$ 866	\$ (3,849)	\$ (1,131)	\$ (2,041)
Basic and diluted net income (loss) per unit	\$ 0.13	\$ (0.72)	\$ (0.19)	\$ (0.38)
Basic weighted average number of units outstanding	6,641,860	5,313,488	6,007,193	5,313,488
Diluted weighted average number of units outstanding	7,823,885	6,641,860	7,189,218	6,641,860

Consolidated Statements of Unitholders' Equity

For the six month period ended June 30, 2008

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

	Unitholders' capital	Equity component of Debentures	Cumulative earnings	Cumulative distributions	Total
BALANCE, June 30, 2007	\$ 47,847	-	11,520	(16,386)	\$ 42,981
Option on convertible debentures	-	2,657	-	-	2,657
Net income for the period	-	-	7,389	-	7,389
Distributions declared	-	-	-	(6,058)	(6,058)
BALANCE, December 31, 2007	\$ 47,847	2,657	18,909	(22,444)	\$ 46,968
Reclassification of Class D LP units from non-controlling interest	11,962	-	4,801	(5,611)	11,152
Re-valuation of inventory per CICA Handbook s.	-	-	3,306	-	3,306
Net loss for the period	-	-	(1,131)	-	(1,131)
Distributions declared	-	-	-	(4,981)	(4,981)
BALANCE, June 30, 2008	\$ 59,809	2,657	25,885	(33,037)	\$ 55,314



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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		Six-month period ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
OPERATING ACTIVITIES				
Net Income (loss)	\$ 866	\$ (3,849)	\$ (1,131)	\$ (2,044)
Items not involving cash	-	-	-	-
Future income taxes	-	7,724	(724)	7,724
Amortization of leaseholds and equipment	779	616	1,530	1,404
Loss on disposal of leaseholds and equipment	333	-	333	-
Amortization of deferred lease inducements	(95)	(78)	(184)	(153)
Accreted interest expense	295	-	429	-
Non-controlling interest	-	(960)	-	(498)
Revaluation of inventory per CICA HB S3031	-	-	3,306	-
	2,178	3,453	3,559	6,434
Change in non-cash working capital balances related to operations				
Accounts receivable	75	304	556	(422)
Inventory	(14)	1,131	(7,730)	(7,663)
Prepaid expenses and deposits	(76)	(146)	(23)	(252)
Accounts payable and accrued liabilities	(4,763)	(3,867)	(594)	1,965
	(4,778)	(2,578)	(7,791)	(6,372)
Cash (used in) / provided by operating activities	(2,600)	875	(4,232)	61
INVESTING ACTIVITIES				
Acquisition of leaseholds and equipment	(2,095)	(1,995)	(3,689)	(3,598)
Proceeds from disposal of assets	-	-	-	5
Lease inducements received	58	168	132	168
Cash used in investing activities	(2,037)	(1,827)	(3,557)	(3,426)
FINANCING ACTIVITIES				
Capital expenditure loan	-	2,932	-	2,932
Operating loan	1,985	411	1,985	5,471
Payment of distributions	(2,823)	(2,391)	(8,056)	(7,884)
Cash (used in) / provided by financing activities	(838)	952	(6,071)	519
CASH INFLOW OUTFLOW DURING THE PERIOD	(5,475)	-	(13,860)	(2,845)
CASH, BEGINNING OF PERIOD	5,475	-	13,860	2,845
CASH, END OF PERIOD	\$ -	\$ -	\$ -	\$ -
Supplemental cash flow information				
Interest paid	\$ 932	\$ 185	\$ 932	\$ 294

Conference Call Notification

Please note the Fund's conference call will take place at 11:00 am Pacific daylight time (2:00 pm EDT) on Monday, August 11, 2008. The number to participate in the teleconference is Toll-free: 866-542-4238 or 416-641-6127. 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, 2008 using the passcode 3268351 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: competitive and economic environment, impact of changes to tax treatment of income trusts or dividend tax credits, foreign exchange, seasonality, fluctuation of cash distributions and nature of Units. 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 149 stores (as at August 7, 2008) 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, and sales of the business for the twelve month period-ended June 30, 2008 were \$120.9 million. 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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