

Sterling

STERLING SHOES LIMITED PARTNERSHIP

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

FOR IMMEDIATE RELEASE

November 12, 2008

STERLING SHOES INCOME FUND (TSX: SSI.UN)

FUND ANNOUNCES THIRD QUARTER 2008 RESULTS and REDUCTION IN DISTRIBUTION

VANCOUVER, BC, November 12, 2008 – Sterling Shoes Income Fund (the “Fund”) today reported its financial results for the quarter ended September 30, 2008.

In response to current and expected market conditions, the Fund also announced a reduction in its monthly distribution to \$0.03333 (\$0.40 on an annualized basis) per Unit, beginning with the November 2008 distribution, payable on December 15, 2008 to Unitholders of record on November 28, 2008. The Fund takes a long term view of distributions that considers, among other criteria, current and expected economic and operating conditions. While our operations are sound, in view of the deteriorating economic conditions and the heightened risk in the credit markets, we consider it prudent to reduce the distribution in order to maintain our sound balance sheet. We intend to continue with our plans to focus on investing in our infrastructure. This will allow us to position our business for sustainable long-term earnings and distributions growth once economic conditions stabilize.

Sales for the quarter ended September 30, 2008 were \$33.9 million, 11.3% higher than the same period of 2007. Sales for the nine-months ended September 30, 2008 were \$88.2 million, 6.7% higher than the same period of 2007. Comparative store sales increased by 2.1% and 1.1% respectively during the three and nine-month periods ended September 30, 2008.

“Sterling enjoyed same-store and overall sales growth compared to the same period last year in an increasingly challenging environment.” said Jeremy Horwitz, President and Chief Executive Officer. “We have achieved this by continuing to execute our strategy with a focus on more balanced store openings between eastern and western Canada as well as on more Shoe Warehouse stores. During the third quarter of 2008, in accordance with commitments entered into in previous periods, we opened 10 new stores. We have opened 19 new stores since January 1, 2008 bringing the total number of stores in operation to 160 compared to 100 at the time of the Fund’s initial public offering in July 2005.”

“Looking forward to 2009, we intend to take a more cautious approach to expansion in light of the current and expected economic conditions. It is also in this context that we are reducing our distribution. We feel that borrowing to pay distributions is not in the best interests of our Unitholders. We will focus on working diligently towards improving the profitability and efficiency of our existing stores and strengthening our infrastructure to better position ourselves for sustainable long-term earnings growth.”

Financial Results for the three months ended September 30, 2008

During the third quarter of 2008, sales rose 11.3% to \$33.9 million from \$30.5 million a year earlier.

Cost of sales as a percentage of sales for the quarter ended September 30, 2008 was 51.1% compared to 43.7% for the same period in 2007. A number of factors contributed to higher cost of sales during the third quarter and nine-month period ended September 30, 2008, especially relative to the same periods during 2007. These factors include:

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Cost of sales during the third quarter of 2008 was impacted by an increase in the obsolescence provision, whereas in the same quarter in 2007 there was a decrease in the obsolescence provision.

Increases in product costs, which include labour and material input costs at the factory level; transportation and distribution costs at local, national and international levels; as well as warehousing costs, also contributed to higher cost of sales during the third-quarter and nine-month period ended September 30, 2008.

A one-time \$3.3 million increase in inventory valuation at January 1, 2008 resulting from the application of a change in accounting standards.

Changing inventory valuation methodology has also changed the timing of the realization of markdowns in cost of sales. The impact of the timing of markdowns had a greater impact during the third quarter and nine-month period ended September 30, 2008 than during the same periods during 2007.

Store and selling expenses for the quarter were \$12.1 million or 35.7% of sales compared to \$10.6 million or 34.7% for the same period during 2007. Store and selling expenses have a fixed underlying core with a large variable component. The Fund opened 10 new stores during the third 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 September 30, 2008 were \$1.7 million or 5.1% of sales compared to \$1.6 million or 5.4% of sales during the same period in 2007. Lower 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 September 30, 2008.

Net income for the third quarter of 2008 was \$1.4 million, or \$0.21 net income per unit (diluted - \$0.21 net income per unit) compared to net income for the same period last year of \$4.0 million, or \$0.61 net income per unit (diluted - \$0.61 net income per unit).

Cash used in operating activities was \$1.5 million for the quarter ended September 30, 2008 compared to cash provided by operations of \$4.4 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 third quarter of 2008 as compared to the same quarter in 2007.

Financial Results for the nine-months ended September 30, 2008

For the nine-month period ended September 30, 2008, sales increased to \$88.2 million or 6.7% over the same period in 2007. Same store sales grew by 1.1% in those stores that were open at least nine-months leading up to October 1, 2007.

Cost of sales as a percentage of sales for the nine-month period ended September 30, 2008 was 51.7% compared to 43.4% for the same period in 2007. Reasons for the increase in cost of sales during the period are the same as during the three-month period noted above.

Store and selling expenses for the nine-month period ended September 30, 2008 were \$33.4 million or 37.9% of sales compared to \$29.8 million or 36.0% for the same period during 2007. The Fund

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opened 17 new stores during the first nine months of 2008. New stores have a higher rent profile and required additional staffing resources which resulted in higher store and selling expenses.

G&A expenses for the nine-month period ended September 30, 2008 were \$5.4 million or 6.1% of sales compared to \$5.2 million or 6.3% of sales during the same period in 2007. This was the result of lower accruals in the nine-month period ended September 30, 2008, partially offset by on-going investments in the Fund's growth initiatives which included new hires during 2008.

Net income for the nine-month period ended September 30, 2008 was \$0.3 million, or \$0.04 net income per unit (diluted - \$0.04 net income per unit) compared to net income for the same period in 2007 of \$1.2 million, or \$0.22 net income per unit (diluted - \$0.22 net income per unit).

Cash used in operating activities was \$5.7 million for the nine-month period ended September 30, 2008 compared to cash provided by operations of \$4.4 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 nine-month period ended September 30, 2008 as compared to the same period in 2007.

STERLING SHOES INCOME FUND	As at	As at
Consolidated Balance Sheets	September	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	512	773
Inventory	45,654	29,034
Prepaid expenses and deposits	800	1,008
	<u>46,966</u>	<u>44,675</u>
LEASEHOLDS AND EQUIPMENT	19,494	16,648
GOODWILL	828	828
INTANGIBLE ASSETS	49,041	49,041
	<u>\$ 116,329</u>	<u>\$ 111,192</u>
LIABILITIES AND UNITHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ 7,807	-
Accounts payable and accrued liabilities	23,143	\$ 18,415
Distributions payable	830	3,905
	<u>31,780</u>	<u>22,320</u>
FUTURE INCOME TAXES	7,000	7,724
CONVERTIBLE DEBENTURES	21,689	21,243
DEFERRED LEASE INDUCEMENTS	1,635	1,785
NON-CONTROLLING INTEREST	-	11,152
UNITHOLDERS' EQUITY	54,225	46,968
	<u>\$ 116,329</u>	<u>\$ 111,192</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		Nine-month period ended	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
SALES	\$ 33,895	\$ 30,483	\$ 88,248	\$ 82,675
COST OF SALES	17,333	13,315	45,603	35,870
GROSS MARGIN	16,562	17,168	42,645	46,805
EXPENSES				
Store and selling	12,112	10,566	33,400	29,774
General and administrative	1,736	1,643	5,370	5,194
	13,848	12,209	38,770	34,968
Income before interest, amortization and non-controlling interest	2,714	4,959	3,875	11,837
Interest expense	494	194	1,647	488
Loss (Gain) on disposal of leaseholds and equipment	-	-	333	(5)
Amortization of leaseholds and equipment	818	716	2,348	2,121
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST AND TAXES	1,402	4,049	(453)	9,233
Future income taxes	-	-	(724)	7,724
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST	1,402	4,049	271	1,509
NON-CONTROLLING INTEREST	-	815	-	317
NET INCOME (LOSS)	\$ 1,402	\$ 3,234	\$ 271	\$ 1,192
Basic and diluted net income per unit	\$ 0.21	\$ 0.61	\$ 0.04	\$ 0.22
Basic weighted average number of units outstanding	6,641,860	5,313,488	6,218,749	5,313,488
Diluted weighted average number of units outstanding	7,823,885	6,641,860	7,400,774	6,641,860

STERLING SHOES INCOME FUND

Consolidated Statements of Unitholders' Equity

For the nine-month period ended Sept 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, September 30, 2007	\$ 47,847	-	14,754	(18,299)	\$ 44,302
Option on convertible debentures	-	2,657	-	-	2,657
Net income for the period	-	-	4,155	-	4,155
Distributions declared	-	-	-	(4,145)	(4,145)
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.3031	-	-	3,306	-	3,306
Net loss for the period	-	-	271	-	271
Distributions declared	-	-	-	(7,472)	(7,472)
BALANCE, September 30, 2008	\$ 59,809	2,657	27,286	(35,527)	\$ 54,225

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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		Nine-month period ended	
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2008	Sept 30, 2007
OPERATING ACTIVITIES				
Net Income (loss)	\$ 1,402	\$ 3,234	\$ 271	\$ 1,192
Items not involving cash	-	-	-	-
Future income taxes	-	-	(724)	7,724
Amortization of leaseholds and equipment	818	716	2,348	2,121
Loss on disposal of leaseholds and equipment	-	-	333	-
Amortization of deferred lease inducements	(97)	(85)	(282)	(238)
Accreted interest expense	17	-	446	-
Non-controlling interest	-	815	-	317
Revaluation of inventory per CICA HB S3031	-	-	3,306	-
	2,140	4,681	5,698	11,116
Change in non-cash working capital balances related to operations				
Accounts receivable	(295)	(31)	261	(359)
Inventory	(8,889)	(6,260)	(16,620)	(13,923)
Prepaid expenses and deposits	231	(85)	207	(337)
Accounts payable and accrued liabilities	5,322	6,053	4,729	7,924
	(3,631)	(324)	(11,423)	(6,696)
Cash (used in) / provided by operating activities	(1,491)	4,357	(5,725)	4,420
INVESTING ACTIVITIES				
Acquisition of leaseholds and equipment	(1,840)	(1,479)	(5,527)	(5,078)
Proceeds from disposal of assets	-	-	-	5
Lease inducements received	-	110	132	278
Cash used in investing activities	(1,840)	(1,369)	(5,395)	(4,795)
FINANCING ACTIVITIES				
Capital expenditure loan	-	-	-	2,932
Operating loan	5,822	(597)	7,807	4,873
Payment of distributions	(2,491)	(2,391)	(10,547)	(10,275)
Cash (used in) / provided by financing activities	3,331	(2,988)	(2,740)	(2,470)
CASH INFLOW OUTFLOW DURING THE PERIOD	-	-	(13,860)	(2,845)
CASH, BEGINNING OF PERIOD	-	-	13,860	2,845
CASH, END OF PERIOD	\$ -	\$ -	\$ -	\$ -
Supplemental cash flow information				
Interest paid	\$ 71	\$ 194	\$ 932	\$ 488

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 Friday, November 14, 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 November 27, 2008 using the passcode 3275081 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: 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

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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 November 12, 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 September 30, 2008 were \$124.3 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:

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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