

**FIRST LEASIDE PROPERTIES FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2009**

The following management discussion and analysis of the financial condition and results of operations should be read in conjunction with the First Leaside Properties Fund (the "Fund") interim financial statements and notes thereto for the three months ended March 31, 2009 and audited financial statements and notes thereto for the year ended December 31, 2008. All financial information is reported in U.S dollars and in accordance with Canadian generally accepted accounting principles unless otherwise noted.

This discussion may contain forward-looking statements which are based on our expectations, estimates and forecasts. These statements are subject to risks and uncertainties that are difficult to predict or control. These risks and uncertainties could cause actual results to differ materially from those indicated. Readers should not place undue reliance on any such forward-looking statements.

Description of Business

The Fund is an open-ended mutual fund trust that has been established by way of a Declaration of Trust (the "Declaration of Trust") made as of July 3, 2007, amended and restated as of September 30, 2008, under the laws of the Province of Ontario, terminating on July 31, 2037.

The Fund has three Classes of Units consisting of an unlimited number of Class A Units, an unlimited number of Class B Units and an unlimited number of Class C Units ("Fund Units").

The business of the Fund involves, among other things, (a) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with notes of FL Master Sherman, Ltd. (the "Master Sherman Notes") and certain participation rights granted in conjunction therewith; and (b) acquiring, investing in, holding, transferring, disposing of and otherwise dealing with securities of or lending to persons engaged in the ownership of primarily income-producing multiple-unit residential real property located in Canada and the United States or any member of the First Leaside Group, provided that such securities or lending activities, by their terms, provide for a return of no less than 9% per annum and have terms that are no less favorable than the Master Sherman Notes.

The Fund's long-term objective is to earn investment income from its investments, to distribute such income to Unitholders in accordance with the terms of the Declaration of Trust. An investment in Units is intended to provide purchasers with the opportunity to receive a 9% per annum distribution.

Overall Performance

The Fund's primary assets are the Master Sherman Notes (the "Notes").

During the three months ended March 31, 2009, the Fund earned \$72,072 in interest income on the Master Sherman Notes (2008 - \$81,802). The interest income has decreased as a result of currency fluctuations on the interest payments made related to the Master Sherman Notes.

The increase in recovery revenue and administrative costs are a result of the costs related to filing the prospectus in 2009, which include professional fees and commissions.

Selected Annual Information

See Management's Discussion and Analysis Year Ended December 31, 2008, "Description of Business".

Results of Operations

For the three months ended March 31, 2009 total revenue was \$494,052 (2008 – \$92,459). Total revenue comprised of interest income of \$72,072 (2008 - \$81,802) less amortization of the call premium derivative of \$277 (2008 - \$533), which is being amortized over the term of the promissory note receivable using the effective interest rate method. Recoveries from related parties were \$422,257 for the three months ended March 31, 2009 (2008 - \$11,190).

As at March 31, 2009, the Fund's total assets were \$6,249,336 (December 31, 2008 - \$3,296,214) and total liabilities were \$4,915,960 (December 31, 2008 – \$2,648,025). The Fund's assets primarily consist of notes receivable from Master Sherman that are due between August 1, 2017 and March 31, 2019. The majority of the Fund's liabilities consist of Class A and B Units from investors that have been classified as liabilities as a result of their redemption feature.

The Fund either paid or accrued \$72,072 in distributions and interest expense to its investors for the quarter ended March 31, 2009 (2008 - \$81,801), which included \$15,170 (2008 - \$16,093) in distributions reinvested in Class C Units.

Summary of Quarterly Results

The Fund earned total revenue of \$72,072 from interest on the Master Sherman Notes for the three months ended March 31, 2009.

	March 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 30, 2008
Interest income	\$ 71,795	\$ 67,868	\$ 83,378	\$ 83,818	\$ 81,840
Recovery of Costs	\$422,257	\$ 11,616	\$461,954	\$135,301	\$ 11,190
Total Revenue	\$494,052	\$ 79,484	\$545,332	\$219,119	\$ 93,030
Cash Distributions	\$ 56,903	\$ 54,041	\$ 66,793	\$ 66,983	\$ 65,708

Liquidity

The Fund has financed its operations to date primarily through the issuance of Fund Units. See “Redemption Rights and Distributions to Fund unit holders” in this Management's Discussion and Analysis for the three months ended March 31, 2009 for limitation on redemptions which minimizes risk of liquidity.

The financial statements have been prepared on a going concern basis which assumes that the Fund will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Income Taxes

The Fund currently qualifies as a Mutual Fund Trust for Canadian income tax purposes. Income earned by the Fund and distributed annually to unitholders is not subject to taxation in the Fund, but is taxed at the individual unitholder level. For financial statement reporting purposes, the tax deductibility of the Fund distributions is treated as an exemption from taxation as the Fund distributes and is committed to continue distributing all of its taxable income to its unitholders.

On June 22, 2007, new legislation relating to the federal income taxation of a specified investment flow-through trust or partnership (“SIFT”) received royal assent (the “SIFT Rules”). Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital will not be subject to the tax.

The Fund is not subject to the SIFT tax regime as its units are not listed on a stock exchange or other public market. Accordingly, the Fund does not record a provision for income taxes, or future income tax assets or liabilities, in respect of the Fund.

Capital Resources and Capital Management

The Fund's capital management objective is to maximize returns to Unitholders while ensuring that the Fund is capitalized in a manner which appropriately supports working capital needs and business expansion. The Fund's capital management practices are focused on preserving the quality of its financial position by maintaining a solid capital base and a strong balance sheet. Capital of the Fund consists of Redeemable units, net of cash, and Unitholders' equity.

The Fund's capital structure is approved by its board of trustees. The Fund monitors on a monthly basis the interest payments received on the Master Sherman Notes and the distributions to Unitholders.

Class A Units are issuable in series and are denominated in U.S. dollars. All distributions made by the Fund to holders of Class A Units shall be made in U.S. dollars. Each Class A Unit will have a corresponding Series A promissory note denominated in U.S. dollars issued by Master Sherman to the Fund. The promissory note will be issued the same date the Class A Units are issued.

Class B Units are issuable in series and are denominated in Canadian dollars. All distributions made by the Fund to holders of Class B Units shall be made in Canadian dollars. Each Class B Unit will have a corresponding Series B promissory note denominated in Canadian dollars attached to it issued by Master Sherman to the Fund. The promissory note will be issued the same date the Class B Units are issued.

Class C Units are issuable in series and are denominated in Canadian dollars. All distributions made by the Fund to holders of Class C Units shall be made in Canadian dollars. The distributions shall be settled by issuing additional Class C Units for the first 10 years. Each Class C Unit will have a corresponding Series C promissory note denominated in Canadian dollars issued by Master Sherman to the Fund. The promissory note will be issued the same date the Class C Units are issued. If the initial term of the Master Sherman promissory note is extended beyond 10 years, the distributions payable during the extension period to the Class C unitholders will not be reinvested, but will be paid in Canadian dollars. At this time, the distributions to the Class C Units will be settled with cash.

The Fund defines its capital structure to include unitholders' equity and redeemable units, net of cash.

	March 31, 2009	December 31, 2008
Cash	\$(2,972)	\$(1,783)
Redeemable units	4,700,204	2,431,238
Unitholders' equity	1,333,376	648,189
	<u>\$6,030,608</u>	<u>\$3,077,644</u>

There are no external or internal restrictions on the Fund's capital.

There were no changes in the Fund's approach to capital management during the three month period ended March 31, 2009.

Redemption Rights and Distributions to Fund unitholders

Redemption rights by Fund unitholders

Each Fund unitholder shall be entitled to require the Fund to redeem on a monthly basis at the demand of the Fund unitholder all or any part of the Fund units registered in the name of the Fund unitholder at the fair market value of the unit as determined by the Trustees. The Trustees shall be entitled in their discretion to determine and designate whether any payments made in respect of any redemption are on account of income or capital, and whether any such redemption shall be affected by an in-specie redemption or by a cash redemption. A cash redemption shall not be applicable to Fund units tendered for redemption by a Fund unitholder, if the total amount payable by the Fund in the same calendar month exceeds \$50,000, unless waived by the Trustees of the Fund.

Distributions

Distributions for a Class of unit will include such things as all cash amounts received from the Master Sherman promissory notes that correspond to the series of a Class of units and all other income, distributions, interest, dividends, proceeds from the disposition of securities, returns of capital and repayments of indebtedness. The distributions will be reduced for all costs and expenses attributable to the series of a Class of units and any series of a Class of units' proportionate share of the common expenses of the Fund.

In the event that the Trustees determine that the Fund does not have available cash in an amount sufficient to make payment of the full amount of any distribution that has been declared to be payable to Fund unitholders, the Fund may issue, on a pro rata basis, additional units, or fractions of units, if necessary, having a value equal to the difference between the amount of such distribution and the amount of cash that has been determined by the Trustees to be available for the payment of such distribution, subject to all necessary regulatory approvals.

Off-Balance Sheet Arrangements

The Fund has no contingent liabilities or off-balance sheet arrangements.

Management agreement and cost/payment reimbursement agreement

The Fund entered into a management agreement with First Leaside Management Inc. on September 30, 2008, with effect from July 3, 2007, whereby First Leaside Management Inc. will provide certain management, administrative and support services on behalf of the Fund. In accordance with the new agreement, there will be no fee charged for performing the management services. The term of the agreement, which can be terminated by either party at any time, is 10 years with an automatic renewal of an additional 10 years.

The Fund also entered into a Fee Payment Agreement with FL Master Sherman, Ltd. ("Master Sherman") on September 30, 2008, where Master Sherman has agreed to pay all of the fees and expenses of the Fund. Commencing January 1, 2009, the fees and expenses cannot exceed \$250,000 on an annual basis without the prior written consent of the Fund. This new agreement terminates on July 3, 2037.

Changes in Accounting Policies Including Initial Adoption

Effective January 1, 2009, the Fund adopted the provisions of CICA section 3064, "Goodwill and Intangible Assets". This supersedes sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. This section has not impacted the Fund's financial statement results upon adoption.

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This abstract provides guidance on Handbook Section 3855, Financial Instruments – Recognition and Measurement, in particular, the determination of fair value of certain financial assets and financial liabilities. It establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of this abstract does not have a material impact on the financial position or results of the operations of the Fund.

Future Accounting Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board, on or after January 1, 2011. The Fund will be required to prepare IFRS financial statements for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Fund for the year ended December 31, 2010.

We commenced a conversion project in 2008 which will address how IFRS will affect the Fund. The project consists of training and education, an assessment of the impact of IFRS on the financial statements, information technology, data systems, disclosure and control procedures, internal control processes, design and implementation of systems and process changes and a post-implementation review. Management is currently evaluating the impact of this new framework.

Risk Management and Fair value of financial instruments

(a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk of future cash flows fluctuating is managed by having fixed rates on the promissory notes receivable.

(b) Credit and collection risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Fund by failing to discharge its obligation. The nature and maximum exposure to credit risk as at March 31, 2009 is:

	Carrying amount
Cash	\$ 2,972
Promissory notes receivable	6,034,439
Amounts receivable	186,676
	<u>\$ 6,224,087</u>

The majority of cash is held with highly rated financial institutions in Canada.

The Fund is also exposed to credit risk on its promissory notes receivable in the event the borrower (i.e. Master Sherman) is unable to make the contracted payments. Such risk is mitigated through careful evaluation of the value of the underlying assets held by the borrower.

(c) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its contractual obligations associated with financial liabilities.

The Fund manages its liquidity risk through the use of budgets and forecasts. Cash requirements are monitored regularly based on actual financial results and actual cash flows to ensure that there are sufficient resources to meet operational requirements.

(d) Fair values of financial instruments:

The fair market values of amounts receivable, accounts payable and accrued liabilities and amounts payable approximate their fair values due to the immediate or short-term maturities of these financial instruments.

The fair values of promissory notes receivable and redeemable units could not be reasonably calculated as there are no comparable commercial terms obtainable.

Risks and Uncertainties

All of the investment proceeds raised by the Fund to date have been invested in the Master Sherman Notes. As such, an investment in the Fund exposes a Unitholder to the risks faced by Master Sherman. These risks include, but not limited to, real estate risks since Master Sherman invests in real property. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments by Master Sherman. Management believes Master Sherman's primary real estate risk is the potential for declining revenue arising from increased vacancies or declining rental rates.

An additional risk faced by Master Sherman is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Master Sherman has provided certain parties with loans in the past and may continue to do so in the future, a failure of these parties to pay their principal and/or interest obligations might affect Master Sherman's ability to pay principal and/or interest to the Fund under the Master Sherman Notes.

Subsequent Event

Subsequent to the period ended March 31, 2009, the Fund issued approximately 900,000 Class C units for total gross proceeds of approximately \$900,000 Cdn. pursuant to its initial public offering. In addition, the Fund received gross proceeds of approximately \$2,170,000 Cdn. through the issuance of approximately 2,170,000 redeemable units.