FL Master Sherman, Ltd.

(A Texas Limited Partnership)

Interim Consolidated Financial Statements
(unaudited)

March 31, 2009

FL Master Sherman, Ltd.

(A Texas Limited Partnership)
Interim Consolidated Balance Sheet
(Expressed in U.S. dollars)
As at March 31, 2009 with comparative figures for December 31, 2008
(unaudited)

	March 31, 2009	December 31, 2008
Assets		
Revenue-producing properties:		
Land	$ 1,526,332	$ 1,526,332
Building	10,979,500	10,979,500
	12,505,832	12,505,832
Less: accumulated amortization	615,797	547,175
	11,890,035	11,958,657
Cash	2,897,588	29,618
Receivables, prepaid expenses and deposits	36,089	47,067
Call premium deriviative	26,000	26,000
Deposits in escrow (note 2)	293,223	305,745
Due from related parties (note 6)	2,067,623	2,325,324
	$ 17,210,558	**$ 14,692,410**
Liabilities and Partners' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 420,587	$ 319,961
Tenants' security deposits	76,885	79,060
Promissory notes payable (note 7)	6,059,679	3,105,534
Mortgage notes payable, net of deferred financing costs (note 2)	9,830,367	9,848,724
Long-term debt (note 3)	500,000	500,000
	16,887,518	13,853,279
Partners' Equity (note 4)	323,040	839,131
Commitment and contingencies (note 10)		
Subsequent event (note 11)		
	$ 17,210,558	**$ 14,692,410**

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board:

"Doug Hyatt" Director

"John Cook" Director

FL Master Sherman, Ltd.

(A Texas Limited Partnership)
Interim Consolidated Statement of Operations and Comprehensive Income
(Expressed in U.S. dollars)
Three months ended March 31,
(unaudited)

	2009	2008
Revenue		
Revenue:		
Rental Revenue	$ 492,319	$ 486,518
Interest (note 6)	40,496	59,756
Other Revenue	30,414	30,240
	563,229	576,514
Expenses		
Operating Expenses:		
Administration	67,041	73,634
Property taxes	72,129	77,754
Utilities	49,654	53,463
Repairs and maintenance	58,133	44,213
Property management fees	20,622	20,409
Insurance	14,471	16,547
Advertising and leasing	1,569	1,523
Bad debts	1,885	4,171
	285,504	291,714
Net Operating Income	277,725	284,800
Non-controlling interest	-	11
Professional fees	498,240	-
Mortgage and other interest	230,927	239,963
Other maintenance charges	15,460	13,205
Fair value change in call premium deriviative	11,000	(1,000)
Foreign exchange loss (gain)	(30,433)	33,569
Amortization of deferred financing fees & in-place lease	-	68,579
Amortization of revenue-producing properties	68,622	68,622
	793,816	422,949
Net loss for the period and comprehensive loss	**$ (516,091)**	**$ (138,149)**
Loss per Unit	$ (0.18)	$ (0.05)
Weighted average number of units outstanding	2,845,440	2,845,587

See accompanying notes to the interim consolidated financial statements.

FL Master Sherman, Ltd.

(A Texas Limited Partnership)
Interim Consolidated Statement of Partners' Equity
(Expressed in U.S. dollars)
Three months ended March 31,
(unaudited)

	General Partner	Limited Partners	2009	2008
Partners' equity, beginning of year	$ (201)	$ 839,332	$ 839,131	$ 2,365,696
Loss for the period	(52)	(516,040)	(516,091)	(138,149)
Redemptions	-	-	-	(293)
Partners' equity, end of period	**$ (253)**	**$ 323,292**	**$ 323,040**	**$ 2,227,254**

See accompanying notes to the interim consolidated financial statements.

FL Master Sherman, Ltd.

(A Texas Limited Partnership)
Interim Consolidated Statement of Cash Flows
(Expressed in U.S. dollars)
Three months ended March 31,
(unaudited)

	2009	2008
Cash provided by (used in):		
Operating activities:		
Loss for the period	$ (516,091)	$ (138,149)
Add back:		
Amortization of in-place lease	-	68,579
Amortization of revenue-producing properties	68,622	68,622
Non-cash interest on mortgages payable	3,932	
Interest recapitalized on promissory notes payable	15,170	16,093
Change in fair value call premium derivative	11,000	(1,000)
Non-cash interest on promissory notes payable	(277)	(533)
Change in other non-cash operating items	207,358	(49,281)
	(210,286)	(35,669)
Financing activities:		
Redemptions	-	(293)
Issuance of promissory notes	3,088,023	72,851
Mortgage repayment	(22,289)	-
Deposits in escrow	12,522	40,607
	3,078,256	113,165
Increase in cash	2,867,970	77,496
Cash, beginning of the period	29,618	314,595
Cash, end of the period	**$ 2,897,588**	**$ 392,091**
Supplemental disclosure of non-cash financing and investment activities:		
Fair value of call premium derivative	$ 11,000	$ -

See accompanying notes to the interim consolidated financial statements.

The purpose and business of FL Master Sherman, Ltd. ("Master Sherman") is to acquire direct and indirect ownership interest in, or other economic exposure to, income-producing real property ("Property"), including through (i) acquiring equity ownership interests in other entities within the First Leaside Group which own property ("Property Vehicles"), (ii) lending to Property Vehicles and (iii) conducting such other activities as may be necessary, advisable, convenient or appropriate to promote or conduct the business of Master Sherman (including, without limitation, property rehabilitation). While the long-term objective of Master Sherman is direct and indirect ownership of Property, Master Sherman may utilize all or substantially of its available funds from time to time to make loans on an interim basis as it assesses other opportunities.

The Amended and Restated Agreement of Limited Partnership (the "Limited Partnership Agreement) dated as of December 16, 2006 and amended and restated as of September 30, 2008 provides that the general partner has unlimited liability for the debts and obligations of Master Sherman. The liability of the limited partner is limited to the amount of capital contributed, or agreed to be contributed, plus the limited partner's share of undistributed income.

1. Significant accounting policies:

In the opinion of Master Sherman, the accompanying interim consolidated financial statements contain all the adjustments necessary to present fairly the financial position as at March 31, 2009 and the results of operations and cash flows for the three months ended March 31, 2009 and 2008. While Master Sherman believes that disclosures presented are adequate to make the information not misleading, generally accepted accounting principles ("GAAP") requires additional disclosures for annual financial statements and, accordingly, it is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2008.

(a) Basis of presentation:

These interim consolidated financial statements are presented in U.S. dollars and include only the assets, liabilities, revenue, expenses and cash flows of Master Sherman and its subsidiary partnerships (note 1(b)) and do not include other assets, liabilities, revenue, expenses and cash flows of the limited and general partners.

(b) Basis of consolidation:

The interim consolidated financial statements include the accounts of Master Sherman and its wholly owned limited partnership interests:

	% ownership
FL Creekview, Ltd.	99.99%
FL Country Village, Ltd.	99.99%

These partnerships hold ownership interests in two multi-residential complexes consisting of 292 units, which are located in Sherman, Texas.

1. Significant accounting policies (continued):

(c) Revenue-producing properties:

Revenue-producing properties are carried at cost less accumulated amortization. If events or circumstances indicate that the carrying value of the revenue-producing properties may be impaired, a recoverability analysis is performed based upon the estimated undiscounted cash flows to be generated from the revenue-producing properties. If the analysis indicates that the carrying value is not recoverable from future cash flows, the revenue-producing properties are written down to estimated fair value and an impairment loss is recognized.

Amortization of buildings and improvements is provided on a straight-line over its estimated useful life, which is 40 years.

(d) Intangible assets:

Acquired intangible assets are initially recognized and measured at fair value. The fair value of the intangible assets is allocated to the individual assets acquired based on management estimates.

In-place leases are amortized using the straight-line method over the estimated lease period.

(e) Variable interest entities:

At March 31, 2009, Master Sherman holds the majority of its assets through two variable interest entities ("VIE"), FL Creekview, Ltd. and FL Country Village, Ltd. These limited partnerships were created to acquire and manage multi-residential complexes in Sherman, Texas. Master Sherman is considered to be the primary beneficiary and, therefore, these VIE's are consolidated in these financial statements.

(f) Revenue recognition:

Revenue includes rents earned from tenants under lease agreements and other incidental income. Revenue is recognized on a straight-line basis over the term of the leases or when services are provided.

(g) Income taxes:

Provision has not been made for income taxes as each partner is responsible for the income taxes on its share of the income or loss of Master Sherman.

(h) Foreign currency:

Monetary items denominated in foreign currency are translated to U.S. dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets are acquired and obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(j) Change in Accounting Policies:

Effective January 1, 2009, Master Sherman 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 Master Sherman'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 Master Sherman.

(k) Future accounting change

The Canadian Accounting Standards Board (“AcSB”) has confirmed its plan to adopt all International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, on or after January 1, 2011. Master Sherman 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 Master Sherman for the year ended December 31, 2010. Master Sherman is currently in the process of evaluating the potential impact of IFRS to its financial statements. This will be an on-going process as new standards and recommendations are issued by the International Accounting and Standards Board and the AcSB.

2. Mortgages payable:

The mortgages payable are secured by first charges on the revenue-producing property, bear interest at a fixed rate of 5.8125% and are repayable in monthly payments of $58,755 and mature January 5, 2017.

The lender also requires amounts to be held in escrow for estimated annual property taxes, insurance and various maintenance costs, which at March 31, 2009, was $293,223 (December 31, 2008 - 305,745).

(Expressed in U.S. dollars, unless otherwise indicated)

3. Long-term debt:

Under the terms of the acquisitions of revenue-producing properties, a total of 500,000 Class A limited partnership units were issued by FL Creekview, Ltd. and FL Country Village, Ltd. to the vendor in connection with the acquisition of the Creekview Apartments and Country Village Apartments. These Class A limited partnership units are characterized as long-term debt for the purposes of these consolidated financial statements and bear interest at 8% per annum and are due December 2011. During the six months before the maturity of the loans, the vendor has the option to convert the loans into securities issued by First Leaside Properties Limited Partnership, the limited partner of Master Sherman.

4. Partners' equity:

The Amended and Restated Agreement of Limited Partnership dated December 16, 2006 and amended and restated as of September 30, 2008 provides that the authorized equity of Master Sherman consists of an unlimited number of limited and general partnership units.

As at March 31, 2009, 2,845,156 (December 31, 2008 - 2,845,156) class B limited partnership units were issued and outstanding. All of the class B limited partnership units are held by First Leaside Properties Limited Partnership.

5. Property management:

The revenue-producing properties are presently being managed by Leaders Property Management Services Inc. for a fee of up to 4% of rental and other revenue related to the properties.

6. Related party balances:

Except as disclosed elsewhere in the financial statements, related party balances include the following:

The amount due from First Leaside Properties Limited Partnership bears interest at 7% per annum, is unsecured and is due on demand.

	March 31, 2009	December 31, 2008
Due from:		
First Leaside Properties Limited Partnership	$ 2,067,623	$ 2,325,324

Master Sherman earned interest income of $39,427 (March 31, 2008 - $58,660) in respect of the related party balances for the period then ended.

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Expressed in U.S. dollars, unless otherwise indicated)

7. Promissory notes payable

The promissory notes payable are unsecured and non-recourse, bear interest at 9% per annum and are due in ten years from issuance (between August 1, 2017 and March 31, 2019) as follows:

	March 31, 2009		December 31, 2008	
	Canadian	U.S.	Canadian	U.S.
Series A	$ -	$ 39,813	$ -	$ 2,000
Series B	5,878,394	4,660,391	2,958,877	2,429,238
Series C	1,682,951	1,334,235	803,629	659,779
	7,561,345	6,034,439	3,762,506	3,091,017
Unamortized call premium derivative	-	25,240	-	14,517
	$ 7,561,345	$ 6,059,679	$ 3,762,506	$ 3,105,534

Series C promissory notes payable do not pay interest; rather, the interest is added to the principal amount of the promissory notes payable. The amount added to the principal amount for the three months ended March 31, 2009 was $15,170 (March 31, 2008 - $16,169).

The promissory notes payable are redeemable in whole or in part, at Master Sherman's option, at any time prior to the tenth anniversary of the original issuance of the promissory notes payable, subject to a certain prepayment call premium. The prepayment option represents an embedded derivative that is to be accounted for separately at fair value. At March 31, 2009, the fair value of the embedded derivative asset is $26,000. As a result of bifurcating the prepayment option from the promissory notes payable, a basis adjustment was added to the cost of the promissory notes payable. This basis adjustment is amortized over the term of the promissory notes payable using the effective interest rate method and is included in interest expense.

Master Sherman incurred interest expense of $72,072 in respect of the promissory notes due to First Leaside Properties Fund (the "Fund") for the three months ended March 31, 2009 (March 31, 2008 - $81,802).

8. Risk Management and 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.

This risk is managed by having fixed rates on mortgages and promissory notes payable. As at March 31, 2009, Master Sherman does not account for any of its fixed rate financial borrowings as held for trading. Therefore, a change in interest rates at the reporting date would not affect loss for the period with respect to these fixed rate instruments.

(b) Credit and collection risk:

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

	Carrying Amount
Cash	$ 2,897,589
Accounts receivable and deposits	12,330
Deposits in escrow	293,223
Due from related parties	2,067,623
	$ 5,270,765

The majority of our cash and cash equivalents and escrow balances are held with highly rated financial institutions in Canada and the United States.

Credit risk arises from the possibility that tenants may experience financial difficulty and not be able to fulfil their lease commitments. The risk of credit loss is limited to the recorded amount of rent receivable. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. The risk of credit loss is minimized by performing a credit assessment of prospective tenants prior to entering into a rental agreement.

Master Sherman regularly monitors the credit risk exposure from related parties by monitoring their financial condition in order to mitigate the likelihood that these exposures will result in an actual loss.

(Expressed in U.S. dollars, unless otherwise indicated)

8. Risk Management and Financial instruments (continued)

(c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Our exposure to foreign currency risk as at March 31, 2009 is as follows:

	March 31, 2009	**December 31, 2008**
	Cdn	Cdn
Cash	3,591,134	-
Due from related parties	2,704,557	2,822,050
Promissory notes payable	(7,561,334)	(3,762,506)
Net exposure	(1,265,643)	(940,456)

A $0.10 strengthening of the U.S. dollar against the Canadian dollar at March 31, 2009 would have increased the loss for the period by approximately $127,000 for the period ended March 31, 2009. This analysis assumes that all the variables, in particular interest rates, remain constant ($0.10 weakening of the U.S. dollar against the above currency at March 31, 2009 would have had an equal but opposite effect).

(d) Liquidity Risk

Liquidity risk is the risk that Master Sherman will encounter difficulty in meeting its contractual obligations associated with financial liabilities. Master Sherman is subject to liquidity risk on its mortgages payable, long-term debt and promissory notes payable whereby it may not be able to refinance or pay its obligations when they become due.

Master Sherman 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.

(e) Fair Values of Financial Instruments

The carrying values of cash, accounts receivables and deposits, deposits in escrow, accounts payable and accrued liabilities and tenant security deposits approximate fair values due to the immediate or short-term maturities of these financial instruments.

As at March 31, 2009, the fair value of the mortgages payable and long-term debt is approximately $9,700,000, based on rates for similar debt of similar terms and credit risk.

The fair values of promissory notes payable and due to/from related parties could not be reasonably calculated as no comparable commercial terms are obtainable.

(Expressed in U.S. dollars, unless otherwise indicated)

9. Capital Management

Master Sherman's capital management objective is to maximize unitholder returns while ensuring that it is capitalized in a manner which appropriately supports working capital needs and business expansion. Master Sherman'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.

Master Sherman's capital is primarily utilized in its ongoing business operations to support working capital requirements, long-term investments made by the Partnership, business expansion and other strategic objectives.

Capital Structure
Master Sherman defines its capital structure to include long-term debt, net of cash and cash equivalents, and partners' equity.

	March 31, 2009	December 31, 2008
Mortgages payable	9,830,367	9,848,724
Long-term debt	500,000	500,000
Promissory notes payable	6,034,439	3,091,017
Total debt	16,364,806	13,439,741
Cash	2,897,588	29,618
Net debt	13,467,218	13,410,123
Partners' equity	323,040	839,131
	13,790,258	14,249,254

Financial Covenants
There are no external restrictions on the partnership's capital.

10. Commitment and contingencies:

In accordance with the Note Purchase Agreement, Master Sherman is obligated to issue promissory notes payable to the Fund subject to acceptance by the Fund, equal to the gross proceeds received by the Fund in its public offering. As a result, Master Sherman entered into an agreement with the Fund effective September 30, 2008, whereby Master Sherman will reimburse the Fund for all of the costs and expenses arising from the offering of Fund units and any other costs incurred in accordance with the Fund's Declaration of Trust. This agreement terminates on July 3, 2037. Master Sherman has reimbursed the Fund for costs and expenses of $422,257 for the three months ended March 31, 2009.

11. Subsequent event:

Subsequent to the period ended March 31, 2009, Master Sherman received proceeds of approximately $3,000,000 Cdn from the issuance of promissory notes payable in accordance with the Note Purchase Agreement (Note 10).