

**FL MASTER SHERMAN, LTD.
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 FL Master Sherman, Ltd. ("Master Sherman") 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

Master Sherman was formed on December 15, 2006, for the purposes of acquiring direct and indirect ownership interest in, or other economic exposure to, income-producing real 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 all of its available funds from time to time to make loans on an interim basis as it assesses other opportunities.

An investment in Master Sherman is intended to provide investors with the opportunity to receive cash distributions originating from the ongoing operation of properties acquired, the opportunity to receive, in certain circumstances, the proceeds from a refinancing of mortgage loans, and the potential to realize capital gains upon the sale of any properties.

As of March 31, 2009, there are 2,845,156 limited partnership units of Master Sherman issued and outstanding. There was no change in the number of units issued and outstanding in the first quarter of 2009.

As at March 31, 2009, the assets of Master Sherman consist of: (a) investment in Country Village LP which owns the Country Village Apartments, located in Sherman, Texas, USA; (b) investment in Creekview LP which owns the Creekview Apartments also located in Sherman, Texas, USA (collectively, the Country Village Apartments and the Creekview Apartments shall be referred to under this section as the "**Property Portfolio**"); and (c) loans by Master Sherman to its parent, First Leaside Properties Limited Partnership.

Property	Location	No. of Units	Acquisition Date	Purchase Price	Mortgage
Creekview	Sherman, Tx	144	December 29, 2006	\$7,345,000	\$5,650,000
Country Village	Sherman, Tx	<u>148</u>	December 29, 2006	<u>\$5,655,000</u>	<u>\$4,350,000</u>
Total		292		\$13,000,000	\$10,000,000

The Property Portfolio was purchased to and (after coverage of promissory notes payable, debt interest and any other expenses, but excluding certain one-time costs, incurred by Master Sherman) generated positive cash flows for distributions to Master Sherman limited partners.

Overall Performance

Master Sherman's primary asset is the Property Portfolio. The Creekview Apartments' occupancy rate as at March 31, 2009 was 97.9% (March 31, 2008 – 99.3%). The Country Village Apartments' occupancy rate as at March 31, 2009 was 98.7% (March 31, 2008 – 93.2%). The Creekview Apartments' average occupancy rate for the first three months 2009 was 98.8% (first three months of 2008 – 99.5%). The Country Village Apartments' average occupancy rate the first three months 2009 was 99.1% (first three months of 2008 – 97.0%).

Rental revenues from the Property Portfolio increased throughout the first three months of 2009 both due to the overall net increase in occupancy rates between the two properties as well as an increase in average rents charged per unit. Rental revenues, in conjunction with other income and interest income led to total revenues of \$563,229 for the three months ended March 31, 2009 (2008 - \$576,514).

Selected Annual Information

See "*FL Master Sherman, Ltd. Management's Discussion and Analysis Year Ended December 31, 2008 – Selected Annual Information*".

Results of Operations

In the first three months of 2009, total revenues were \$563,229 (2008 – 576,514). Total revenues comprised of (i) net rental revenues of \$492,319 for the three months ended March 31, 2009 (2008 - \$486,518); and (ii) other income of \$30,414 for the three months ended March 31, 2009 (2008 – \$30,168) and interest income of \$40,496 for the three months ended March 31, 2009 (2008 – \$59,827). The rental revenues were earned from the Property Portfolio and increased throughout the first three months 2009 both due to increased occupancy rates and an increase in average rents charged per unit. The other income consists of miscellaneous items such as rents for parking spots and car ports. Interest income is earned from balances with certain related parties, which decreased during the first three months of 2009. See "*FL Master Sherman, Ltd. Management's Discussion and Analysis for quarter ended March 31, 2009 – Related Party Transactions*".

Operating expenses include property taxes, utilities, property management fees, repairs and maintenance, insurance, advertising and leasing and administration expenses.

Property taxes in the first quarter of 2009 decreased compared to the same period in 2008 as a result of a revision to the assessed tax value for the properties by the Grayson County tax department during 2008, resulted in lower property taxes going forward. During 2008, the Assessed tax values were revised to \$11,776,000, down from \$13,005,000 in 2007.

Utility expense for the first quarter 2009 remained similar to the first quarter 2008 having only increased by approximately 1%. Increases in water consumption and garbage costs were offset by lower costs associated with gas and electricity.

Property management fees increased slightly during the three months ended March 31, 2009 as a result of an increase in revenue. In accordance with the property management services agreement, property management fees are based on 4% of total revenues collected on a monthly basis, or \$3,000/month per property, whichever is greater. Due to the high level of occupancy rates, management fee expense was calculated on the basis of 4% of total income, rather than the minimum fee of \$3,000/month during the first three months of 2009.

Repairs and maintenance expenses include general maintenance, equipment maintenance, cleaning, painting and landscape service.

Advertising and leasing expense includes advertising and marketing for new tenants, as well as promotional items for existing tenants. The advertising and leasing expense has remained relatively

stable with a slight increase in advertisement in local media which was not utilized in the first quarter of 2008.

Operating income for the quarter ended March 31, 2009, was \$277,725 (March 31, 2008 - \$284,800). However, Master Sherman incurred net losses of \$516,091 (March 31, 2008 - \$138,149). This loss was primarily due to i) non-cash items such as amortization of revenue-producing properties of \$68,622 (March 31, 2008 - \$68,622), amortization of in-place leases of \$Nil (March 31, 2008 - \$69,579); ii) mortgage and other interest costs of \$230,927 (March 31, 2008 - \$239,963) (which includes interest paid to First Leaside Properties Fund (the "Fund") of \$72,072 (March 31, 2008 - \$81,802) for interest on the promissory notes); iii) other maintenance charges of \$15,460 (March 31, 2008 - \$13,205); iv) a fair value decrease in the call premium derivative of \$11,000 (March 31, 2008 - \$(1,000)) and iv) a partial offset by a foreign exchange gain of \$30,433 (March 31, 2008 - \$33,569 loss);

Also included in other expenses is professional fees of \$498,240 for the three months ended March 31, 2009 (March 31, 2008 - Nil) incurred for the Fund's public offering. 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 Declaration of Trust. This agreement terminates on July 3, 2037.

As at March 31, 2009, Master Sherman's total assets were \$17,210,558 (December 31, 2008 - \$14,692,410) and total liabilities were \$16,887,518 (December 31, 2008 - \$13,853,279). The increase in total assets was due to an increase in cash and equivalents as a result of the Fund's initial public offering in the first three months of 2009. These increases were partially offset by a decrease due to partial repayment of the amounts receivable from related parties, deposits in escrow and amortization of revenue-producing properties. The increase in total liabilities was mainly due to an increase in promissory notes payable as a result of new funds raised by the Properties Fund. An increase in accrued liabilities and accounts payable for audit and legal fees related to the public offering also contributed to this increase. These increases were offset slightly by mortgage principal payments which began in February 2009 and a decrease in tenant security deposits.

Summary of Quarterly Results

	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Average Occupancy Rate	99%	98%	97%	98%
Total Revenue	\$ 563,229	\$567,182	\$577,898	\$578,714
Net Operating Income	\$ 277,724	\$ 268,546	\$306,461	\$285,940
Net Loss	\$ (516,092)	\$(336,042)	\$(958,837)	\$(93,245)

	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Average Occupancy Rate	96%	97%	95%	97%
Total Revenue	\$576,513	\$532,651	\$501,040	\$497,927
Net Operating Income	\$284,800	\$250,358	\$206,663	\$218,147
Net Loss	\$(138,149)	\$(156,567)	\$(134,295)	\$(107,278)

As shown in the chart above, total revenues increased in the last two quarters of 2007 and the first two quarters of 2008. The increases were primarily a result of (i) leasing initiatives undertaken by the Property Manager and management of Master Sherman GP to reduce vacancies and increase net rental income; and (ii) interest income earned from related party balances. The decrease in revenue from the third quarter 2008 through the first quarter 2009 is mainly due to lower interest revenues from related party balances. These balances decreased due to the partial repayment of the amounts receivable as well as well as currency fluctuations.

The net loss increased significantly in the three months ended September 30, 2008, partially as a result of expenses incurred for professional fees of \$879,618 as a result of the cost reimbursement agreement with the Fund for the three months ended September 30, 2008, \$189,308 for the three months ended December 31, 2008 and \$498,240 for the three months ended March 31, 2009.

Liquidity

See “*FL Master Sherman, Ltd. Management’s Discussion and Analysis Year Ended December 31, 2008 – Liquidity*”.

Capital Resources and Capital Management

As of the date hereof, there are 2,845,156 limited partnership units of Master Sherman issued and outstanding.

Master Sherman’s capital management objective is to maximize limited partner returns while ensuring that the Partnership 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. Capital of Master Sherman consists of long-term debt and promissory notes payable, net of cash, and partners’ equity. Master Sherman’s capital structure is approved by its board of directors. There were no changes in Master Sherman’s approach to capital management during the three months ended March 31, 2009.

The capital structure of Master Sherman consisted of the following components at March 31, 2009:

Capital		
	Mortgages payable	\$9,830,367
	Promissory notes payable	6,034,439
	Long-term debt, net of cash	(2,397,588)
	Partners’ equity	<u>323,040</u>
Total Capital		\$ 13,790,258

Mortgages Payables on the Creekview Apartments and the Country Village Apartments

Both the Creekview Apartments and the Country Village Apartments have mortgages payable, which are secured by these revenue-producing properties. The mortgages payable bear interest at a fixed rate of 5.8125% per annum. Only the interest component of the mortgage payable was due in January 2009, beginning in February 2009, \$58,755, comprised of interest and principal, was payable monthly, maturing on January 5, 2017 (the "**Maturity Date**").

The mortgages are closed, meaning that the lender on the mortgages (Merrill Lynch Mortgage Lending, Inc., "**Merrill Lynch**") has no obligation to accept prepayment of the loan amount until three months before the Maturity Date. If Merrill Lynch does accept or collect prepayments made prior to three months before the Maturity Date, penalties apply. In addition, the mortgages provide for an increased rate of interest in the event of default.

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 the consolidated financial statements and bear interest at 8% per annum and are due in December 2011. During the six months before the maturity of the units, the vendor has the option to convert the units into securities issued by First Leaside Properties Limited Partnership, the limited partner of Master Sherman.

Promissory Notes Payable

The promissory notes payable are unsecured and non-recourse, bear interest at 9% per annum and are due between August 1, 2017 and March 31, 2019. Series A and B promissory notes payable pay interest in cash at 9% per annum, due monthly. The Series A notes are denominated in U.S. dollars. The Series B notes are denominated in Canadian dollars. The Series C notes are denominated in Canadian dollars and do not pay interest in cash; rather, the interest is added to the principal amount of the promissory notes payable.

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. As 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 the Fund for the three months ended March 31, 2009 (March 31, 2008 - \$81,802).

Off-Balance Sheet Arrangements

Master Sherman has no contingent liabilities or off-balance sheet arrangements.

Related Party Transactions

The following transactions were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

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

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

Master Sherman earned interest income of \$39,415 in respect of the amounts due from FLP for the three months ended March 31, 2009 (March 31, 2008 - \$58,660).

Changes 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.

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. 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.

We commenced a conversion project in 2008 which will address how IFRS will affect Master Sherman. 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 the new framework.

Fair Value 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 carrying values of the mortgages payable and long-term debt is approximately \$9,700,000, based on rates of similar debt 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.

The management of Master Sherman GP has the overall responsibility for the establishment and oversight of Master Sherman's risk management framework. Master Sherman's risk management policies are established to identify and analyze the risks faced by Master Sherman, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to Master Sherman's activities.

In the normal course of business, Master Sherman is exposed to a number of risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

Credit 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	<u>2,067,623</u>
Total Exposure	\$5,270,765

The majority of the cash balance is held with a highly rated Canadian financial institution while the escrow balances are held with a highly rated financial institution in the United States.

Credit risk arises from the possibility that tenants may experience financial difficulty and not be able to fulfill 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 actual losses.

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.

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 is sufficient cash flow to meet operational requirements.

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.

Master Sherman's exposure to foreign currency risk is as follows:

	March 31, 2009	December 31, 2008
	(Canadian \$)	(Canadian \$)
Cash	3,591,134	-
Due from related parties	2,704,557	2,822,050
Promissory notes payable	(7,561,334)	(3,762,495)
Net exposure	\$ (1,265,643)	\$ (940,445)

A US 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 quarter ended March 31, 2009. This analysis assumes that all the variables, in particular interest rates, remain constant (US 10¢ weakening of the U.S. dollar against the above currency at March 31, 2009 would have had an equal but opposite effect).

Risks and Uncertainties

An investment in the securities of Master Sherman includes, but is 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, Master Sherman received proceeds of approximately \$3,000,000 Cdn from the issuance of promissory notes payable in accordance with the Note Purchase Agreement.