

First Leaside Properties Fund

Interim Financial Statements

(unaudited)

March 31, 2009

First Leaside Properties Fund

Interim Balance Sheet
(Expressed in U.S. dollars)

March 31, 2009 with comparison figures for 2008
(unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash	\$ 2,972	\$ 1,783
Due from entities within the First Leaside Group of Companies (note 7)	186,676	188,897
	189,648	190,680
Promissory notes receivable (note 2)	6,059,688	3,105,534
	\$ 6,249,336	\$ 3,296,214

Liabilities and Unitholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 180,809	\$ 181,840
Due from entities within the First Leaside Group of Companies (note 7)	8,947	8,947
	189,756	190,787
Call premium derivative (note 2)	26,000	26,000
Redeemable units (note 3)	4,700,204	2,431,238
Unitholders' equity (note 5)	1,333,376	648,189
Subsequent event (note 11)		
	\$ 6,249,336	\$ 3,296,214

See accompanying notes to the interim financial statements.

On behalf of the Trustees:

"Murray Eades" Trustee

"Douglas Law" Trustee

First Leaside Properties Fund

Interim Statement of Operations
(Expressed in U.S. dollars)

For the three month period March 31,
(unaudited)

	2009	2008
Revenue		
Interest and other	\$ 71,795	\$ 81,269
Recovery of costs (note 4)	422,257	11,190
	<u>494,052</u>	<u>92,459</u>
Expenses		
Interest	56,903	65,708
Administration	422,257	11,190
Change in fair value of call premium derivative	(11,000)	1,000
	<u>468,160</u>	<u>77,898</u>
Net Income	25,892	14,561
Other comprehensive income (loss):		
Foreign currency translation	(34,946)	11,229
Comprehensive Income (Loss)	\$ (9,054)	\$ 25,790
Net Income per Unit	\$ 0.02	\$ 0.02
Weighted average number of units outstanding	1,243,290	726,659

See accompanying notes to the interim financial statements.

First Leaside Properties Fund

Interim Statement of Unitholders' Equity
(Expressed in U.S. dollars)

For the three month period March 31,
(unaudited)

				2009	2008
	Class C Units	Amount	Accumulated other comprehensive income (loss)	Total	Total
Unitholders' equity, beginning of period	803,628	\$ 779,815	\$ (131,626)	\$ 648,189	\$ 710,455
Net income	-	25,892	-	25,892	14,561
Issuances	860,303	694,241	-	694,241	11,166
Distributions reinvested	19,020	15,170	-	15,170	16,093
Unit redemptions	-	-	-	-	-
Distributions	-	(15,170)	-	(15,170)	(16,093)
Foreign currency translation	-	-	(34,946)	(34,946)	(25,727)
Unitholders' equity, end of period	1,682,951	\$ 1,499,948	\$ (166,572)	\$ 1,333,376	\$ 710,455

See accompanying notes to the interim financial statements.

First Leaside Properties Fund

Interim Statement of Cash Flows
(Expressed in U.S. dollars)

For the three month period March 31,
(unaudited)

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net income	\$ 25,892	\$ 14,561
Items not involving cash:		
Loss on investment	0	0
Change in fair value of call premium derivative	(11,000)	1,000
Non-cash interest income	(15,170)	(16,093)
Non-cash interest on promissory notes receivable	277	533
Change in other non-cash operating working capital	(1,031)	(11,341)
	<u>(1,032)</u>	<u>(11,340)</u>
Financing activities:		
Issuance of Class C units	694,241	11,166
Redemption of Class C units	0	0
Issuance of redeemable units	2,393,782	61,685
Redemption of redeemable units	0	0
Transactions with entities within the First	2,221	0
	<u>3,090,244</u>	<u>72,851</u>
Investing activities:		
Investment in promissory notes receivable	(3,088,023)	(72,851)
Repayment of promissory notes receivable	0	0
	<u>(3,088,023)</u>	<u>(72,851)</u>
Increase (decrease) in cash	1,189	(11,340)
Cash, beginning of period	1,783	116,485
Cash, end of period	\$ 2,972	\$ 105,145
Supplemental disclosure of non-cash financing and investing activities:		
Distributions reinvested	15,170	16,093
Fair value of call premium	11,000	(1,000)

See accompanying notes to the interim financial statements.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

First Leaside Properties Fund (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's investment objectives are to invest its funds in securities and investments of persons engaged in the ownership of primarily income-producing multiple-unit residential real property located in Canada and the United States.

1. Significant accounting policies:

In the opinion of Fund, the accompanying interim 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 the Fund 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 financial statements be read in conjunction with the audited financial statements and notes for the year ended December 31, 2008.

The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the full year.

(a) Basis of presentation:

These financial statements are presented in U.S. dollars and are prepared in accordance with accounting principles generally accepted in Canada.

(b) Investment income:

Investment income, which consists of interest income, is recorded on the accrual basis.

(c) Foreign currency:

The Fund's functional currency is Canadian dollars but reporting currency is U.S. dollars. The translation of the items on the statement of operations and comprehensive income (loss) and cash flows into U.S. dollars is done using the exchange rates in effect at the date of the transaction and assets and liabilities are translated using the exchange rate at the end of the period. The exchange differences from the foregoing translation procedures are reported in a separate component of other comprehensive loss.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

1. Significant accounting policies (continued):

(d) 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.

(e) Revenue recognition

Interest income on promissory notes receivable and recovery of costs under the cost/payment reimbursement agreement with F.L. Master Sherman, Ltd (note 4) is recognized on an accrual basis in the period earned.

(f) 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 periods. Actual results could differ from those estimates.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

1. Significant accounting policies (continued):

(g) Changes in accounting policies:

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.

(h) 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. 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 Partnership for the year ended December 31, 2010.

The Fund 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.

(i) Net income per unit:

Net income per unit is computed by dividing net income by the weighted average units outstanding during the period.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

2. Promissory notes receivable:

The Class A notes are denominated in U.S. dollars and bear interest at 9% per annum. As at March 31, 2009, there were \$39,813 (December 31, 2008 - \$2,000) of notes outstanding.

The Class B notes are denominated in Canadian dollars and bear interest at 9% per annum. As at March 31, 2009, there were \$4,660,391 (Cdn. \$5,878,394) (December 31, 2008 - \$2,429,238; Cdn. \$2,958,877) of notes outstanding.

The Class C notes are denominated in Canadian dollars and bear interest at 9% per annum, and such interest is re-invested in Class C units on a monthly basis. As at March 31, 2009, there were \$1,334,244 (Cdn. \$1,682,951) (December 31, 2008 - \$659,779; Cdn \$803,629) of notes outstanding.

The promissory notes are due ten years from issuance, which is on or before March 31, 2019. For all classes of notes, Master Sherman is able to redeem the notes subject to a call premium and to extend the term for a further 10 years. The promissory notes receivable are redeemable in whole or in part, at Master Sherman's option, and any time prior to the tenth anniversary of the original issuance of the promissory notes receivable, subject to a certain prepayment call premium. The prepayment option represents an embedded derivative that is to be accounted for separately at fair value. The fair value of the embedded derivative liability is \$26,000 (December 31, 2008 - \$26,000). As a result of bifurcating the prepayment option from the promissory notes receivable on issuance of the notes, a basis adjustment of \$25,240 (December 31, 2008 - \$14,517), net of accumulated amortization of \$1,760 (December 31, 2008 - \$1,483), is included in the cost of the promissory notes receivable. This basis adjustment is amortized over the term of the receivable using the effective interest rate method and reported as a reduction to interest income.

3. Redeemable units:

Class A units of the Fund are issuable in series and are denominated in U.S. dollars. Class A unitholders are entitled to one vote per Class A unit owned at all meetings of unitholders. All distributions made by the Fund to holders of Class A units shall be made in U.S. dollars including any payments relating to the participation rights (note 6). 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.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

3. Redeemable units (continued):

Class B units of the Fund are issuable in series and are denominated in Canadian dollars. Class B unitholders are entitled to one vote per Class B unit owned at all meetings of unitholders. All distributions made by the Fund to holders of Class B units shall be made in Canadian dollars other than payments relating to the participation rights (which shall be made in U.S. dollars - note 6). Each Class B unit will have a corresponding Series B promissory note denominated in Canadian dollars issued by Master Sherman to the Fund. The promissory note will be issued the same date the Class B units are issued.

The Class A and Class B units of the Fund have identical rights relating to redemption, distributions and upon termination of the Fund as Class C units described in note 5.

During the three months ended March 31, 2009, the Fund issued 37,813 Class A units and 2,919,517 Class B units for total consideration of \$37,813 and \$2,355,969 (Cdn. \$2,919,517), respectively.

	Class A		Class B		Total	
	Units	Amount	Units	Amount	Units	Amount
As at July 3, 2007:						
Units issued	2,000	\$ 2,000	2,967,246	\$ 2,908,384	2,969,246	\$ 2,910,384
Unit redemptions	-	-	(51,051)	(48,093)	(51,051)	(48,093)
Foreign exchange	-	-	-	81,567	-	81,567
As at December 31, 2007:	2,000	\$ 2,000	2,916,195	\$ 2,941,858	2,918,195	\$ 2,943,858
Units issued	-	-	117,682	116,680	117,682	116,680
Unit redemptions	-	-	(75,000)	(70,969)	(75,000)	(70,969)
Foreign exchange	-	-	-	(558,331)	-	(558,331)
As at December 31, 2008	2,000	\$ 2,000	2,958,877	\$ 2,429,238	2,960,877	\$ 2,431,238
Units issued	37,813	37,813	2,919,517	2,355,969	2,957,330	2,393,782
Unit redemptions	-	-	-	-	-	-
Foreign exchange	-	-	-	(124,816)	-	(124,816)
As at March 31, 2009	39,813	\$39,813	5,878,394	\$ 4,660,391	5,918,207	\$ 4,700,204

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

4. 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.

The Fund has recorded a recovery charge in the statements of operations of \$422,257 during the three months ended March 31, 2009 (March 31, 2008 – \$11,190).

5. Unitholders' equity:

Pursuant to the Declaration of Trust dated July 3, 2007, the number of Class C units that are authorized and may be issued is unlimited.

Class C units of the Fund are issuable in series and are denominated in Canadian dollars. Class C unitholders are entitled to one vote per Class C unit owned at all meetings of unitholders. All distributions made by the Fund to holders of Class C units shall be made in Canadian dollars other than payments relating to the participation rights (which shall be made in U.S. dollars - see note 6). The cash distributions shall not be paid to the holders of Class C units; any amounts payable to holders of Class C units shall be paid by issuing additional Class C units.

Each Class C unit will have a corresponding series C 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 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.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

5. Unitholders' equity (continued):

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 effected 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:

The computation of distributable cash flow is defined in the Declaration of Trust. 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.

Termination of Fund:

Upon the termination of the Fund, the proceeds of the net assets of the Fund after paying for all known liabilities and obligations will be distributed to the unitholders in accordance with their pro rata interests.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

6. Participation rights:

Effective September 30, 2008, the Fund has received participation rights from FLP, the limited partner of Master Sherman, concurrent with the promissory notes issued by Master Sherman to the Fund. The cost of the participation rights is 1/10 of U.S. \$0.01 for each U.S. \$1.00 principal amount of promissory note issued by Master Sherman. As at March 31, 2009, the fair value of these participation rights is nil.

Each participation right entitles the Fund, upon exercise, to a cash payment equal to the fair market value of one FLP unit as determined by FLP or the closing price of the FLP unit if FLP is a reporting issuer and the FLP units are traded on an exchange, as at the time that the participation right in question is exercised less the base FLP unit cost equal to 120% of the fair market value of one FLP unit at the time that the participation right in question is granted. Each series of participation rights shall vest on the tenth anniversary of the date of the grant of such participation rights, being September 30, 2008, and shall expire 30 days after the vesting date. If the term of the promissory notes that corresponds to a series of participation rights is extended for a further 10 years, then the vesting date of the corresponding participation rights is extended for a further 10 years. The participation rights are retractable, subject to a call premium, by FLP at any prior to the vesting date.

If the Fund's unitholders redeem some or all of the Fund's units, the participation rights that correspond to the promissory notes attached to the Fund units will expire and terminate.

7. Transactions with First Leaside Group of Companies:

The First Leaside group of companies are multi-disciplinary investment management and advisory firms, which include entities such as First Leaside Management Inc., which is the manager of the Fund. Amounts due from/to entities within the First Leaside group of companies are due on demand, are unsecured and non-interest bearing as follows:

	March 31, 2009	December 31, 2008
Due from:		
FL Master Sherman, Ltd.	\$ 49,897	\$ 48,110
First Leaside Properties Limited Partnership	136,779	140,787
	<u>\$ 186,676</u>	<u>\$ 188,897</u>

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

7. Transactions with First Leaside Group of Companies (continued):

	March 31, 2009	December 31, 2008
Due to:		
First Leaside Properties Limited Partnership	\$ 8,947	\$ 8,947
	<hr/> \$ 8,947	<hr/> \$ 8,947

- (a) The Fund entered into an agreement with First Leaside Properties Limited Partnership (the "FLP") on July 3, 2007 (the Fee Payment Agreement") whereby the FLP has agreed to pay all of the fees and expenses of the Fund. This agreement has been replaced by the agreement noted in note 4.
- (b) The Fund entered into an agreement with Master Sherman 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 cost incurred in accordance with the Fund's Declaration of Trust (note 4).

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.

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

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

8. Risk management and financial instruments (continued):

(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
	<hr/> \$ 6,224,087 <hr/>

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 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 cash, 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 no comparable commercial terms are obtainable.

FIRST LEASIDE PROPERTIES FUND

Notes to the Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three month period ended March 31, 2009
(Unaudited)

9. Capital management:

The Fund's capital management objective is to maximize unitholder returns 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 strong capital base. Capital of the Fund consists of long-term debt and unitholders' equity.

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

Capital structure:

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.

10. Economic dependence:

The promissory notes receivable and virtually all of the interest income are from Master Sherman. The loss of interest income or the inability of Master Sherman to repay the promissory notes receivable could have a material adverse effect on the Fund's results of operations and financial position.

11. Subsequent events

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.