

Consolidated Financial Statements
(Expressed in U.S. dollars)

FL MASTER SHERMAN, LTD.
(A TEXAS LIMITED PARTNERSHIP)

Years ended December 31, 2008 and 2007



KPMG LLP
Chartered Accountants
Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto ON M5L 1B2
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

AUDITORS' REPORT

To the General Partner and Limited Partner of FL Master Sherman, Ltd.

We have audited the consolidated balance sheets of FL Master Sherman, Ltd. (a Texas Limited Partnership) as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive income, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of Master Sherman's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Master Sherman as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

April 29, 2009

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

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

December 31, 2008 and 2007

	2008	2007
Assets		
Revenue-producing properties:		
Land	\$ 1,526,332	\$ 1,526,332
Buildings and improvements	10,979,500	10,979,500
	12,505,832	12,505,832
Less accumulated amortization	547,175	276,713
	11,958,657	12,229,119
Cash	29,618	314,595
In-place lease, net	—	274,317
Receivables, prepaid expenses and deposits (note 7)	47,066	166,360
Call premium derivative	26,000	24,000
Deposits in escrow (note 2)	305,745	166,269
Due from related parties (note 6)	2,325,324	3,516,329
	\$ 14,692,410	\$ 16,690,989

Liabilities and Partners' Equity

Liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 319,961	\$ 226,714
Tenants' security deposits	79,060	83,942
Promissory notes payable (note 8)	3,105,534	3,678,312
Mortgages payable, net deferred of financing costs (note 2)	9,848,724	9,836,324
Long-term debt (note 3)	500,000	500,000
	13,853,279	14,325,292
Partners' equity (note 4)	839,131	2,365,697
Commitment and contingencies (note 11)		
Subsequent event (note 12)		
	\$ 14,692,410	\$ 16,690,989

See accompanying notes to consolidated financial statements.

Approved on behalf of the Partnership by its
General Partner, FL Master Sherman GP, Inc.:

"Doug Hyatt" _____ Director

"John Cook" _____ Director

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Consolidated Statements of Operations and Comprehensive Income
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

	2008	2007
Revenue:		
Rental	\$ 1,930,863	\$ 1,879,165
Interest (note 6)	244,975	36,341
Other	124,469	111,209
	<u>2,300,307</u>	<u>2,026,715</u>
Expenses:		
Administration	277,262	232,056
Property taxes	273,921	324,028
Utilities	200,798	189,665
Repairs and maintenance	244,300	200,199
Property management fees	80,674	78,327
Insurance	62,594	63,781
Advertising and leasing	7,149	10,393
Bad debts	7,862	23,988
	<u>1,154,560</u>	<u>1,122,437</u>
Net operating income	1,145,747	904,278
Professional fees (note 10)	1,068,926	—
Mortgage and other interest	960,335	721,967
Other maintenance charges	90,415	64,753
Fair value change in call premium derivative	(2,000)	(8,000)
Foreign exchange loss	9,599	54,969
Amortization of in-place lease	274,317	274,318
Amortization of revenue-producing properties	270,462	274,428
	<u>2,672,054</u>	<u>1,382,435</u>
Loss before non-controlling interest	(1,526,307)	(478,157)
Non-controlling interest	34	57
Loss for the year and comprehensive income	<u>\$ (1,526,273)</u>	<u>\$ (478,100)</u>
Loss per unit	\$ (0.54)	\$ (0.17)
Weighted average number of units outstanding	2,844,960	2,812,353

See accompanying notes to consolidated financial statements.

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Consolidated Statements of Partners' Equity
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

	General partner	Limited partners	Total
Partners' equity, December 31, 2006	\$ –	\$ 2,841,377	\$ 2,841,377
Loss for the year	(48)	(478,052)	(478,100)
Issuance of units	–	2,420	2,420
Partners' equity (deficiency), December 31, 2007	(48)	2,365,745	2,365,697
Loss for the year	(153)	(1,526,120)	(1,526,273)
Redemptions	–	(293)	(293)
Partners' equity (deficiency), December 31, 2008	\$ (201)	\$ 839,332	\$ 839,131

See accompanying notes to consolidated financial statements.

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (1,526,273)	\$ (478,100)
Items not involving cash:		
Amortization of revenue-producing properties	270,462	274,428
Amortization of in-place lease	274,317	274,318
Fair value change in call premium derivative	(2,000)	(8,000)
Non-cash interest on mortgage payable	12,400	18,203
Interest recapitalized on promissory note payable	64,111	12,257
Non-cash interest on promissory notes payable	(772)	(713)
Change in non-cash operating items	712,547	341,846
	(195,208)	434,239
Financing activities:		
Redemptions	(293)	-
Issuance of limited partnership units	-	2,420
Deposits in escrow	(139,476)	(66,392)
	(139,769)	(63,972)
Investing activities:		
Additions to revenue-producing properties	-	(4,834)
Due from related parties	50,000	(50,838)
	50,000	(55,672)
Increase (decrease) in cash	(284,977)	314,595
Cash, beginning of year	314,595	-
Cash, end of year	\$ 29,618	\$ 314,595
Supplemental disclosure of non-cash financing and investing activities:		
Fair value of call premium derivative	\$ -	\$ 16,000
Issuance of promissory notes payable in exchange for amount receivable	-	113,181
Issuance of promissory notes payable to settle reduction of receivable from related parties	-	(261,071)
Issuance of promissory notes payable in exchange for receivable from related party	138,641	3,700,108
Repayment of promissory note payable by reduction in receivable from related party	(70,969)	-

See accompanying notes to consolidated financial statements.

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Notes to Consolidated Financial Statements
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

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 all 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:

(a) Basis of presentation:

These 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 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 (2007 - two) multi-residential complexes, consisting of 292 (2007 - 292) units, which are located in Sherman, Texas.

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

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 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 is provided on a straight-line basis over their estimated useful lives, 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's estimates.

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

(e) Financial instruments:

Master Sherman has designated its cash and deposits in escrow as held-for-trading, which are measured at fair value. Accounts receivable and due from related parties are classified as loans and receivables, which are measured at amortized cost. Mortgages payable, accounts payable and accrued liabilities, tenants' security deposits and long-term debt are classified as other financial liabilities, which are also measured at amortized cost. Master Sherman had neither available-for-sale nor held-to-maturity instruments as at or during the years ended December 31, 2008 and 2007.

FL MASTER SHERMAN, LTD.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(f) Variable interest entities:

At December 31, 2008, 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 VIEs are consolidated in these financial statements.

(g) 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.

(h) Income taxes:

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

(i) 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 were acquired or 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.

FL MASTER SHERMAN, LTD.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(j) 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 years. Actual results could differ from those estimates.

The most significant estimates that Master Sherman is required to make relate to the recoverability of its amounts due from related parties.

The estimates of fair value of these assets may depend upon, among other things, assumptions regarding local real estate market conditions, property and income taxes, interest rates and the availability, cost and terms of financing and other factors affecting the profitability of the borrower.

These assumptions are limited by the availability of reliable comparable data, economic uncertainty and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates of fair value are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

(k) Changes in accounting policies:

Effective January 1, 2008, Master Sherman adopted the new Handbook Sections issued by The Canadian Institute of Chartered Accountants ("CICA"): Section 1535, Capital Disclosures, Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. In addition, Master Sherman implemented the revised Section 1400, General Standards of Financial Statement Presentation.

FL MASTER SHERMAN, LTD.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

Section 1535 establishes standards for disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what is considered capital, whether an entity has complied with any capital requirements and consequences of any non-compliance. The adoption of this standard had no effect on the recognition or measurement of amounts recorded in the consolidated balance sheets and consolidated statements of operations and comprehensive income, partners' equity and cash flows. The effect of adopting this standard has been detailed in note 10.

Section 3862 and Section 3863, which replaced Section 3861, Financial Instruments - Disclosure and Presentation, revised and enhanced the disclosure requirements, and continued the existing presentation requirements for financial instruments. These standards require disclosures about the nature and extent of risks arising from financial instruments and the management of these risks. The adoption of this standard had no effect on the recognition or measurement of amounts recorded in the consolidated balance sheets and consolidated statements of operations and comprehensive income, partners' equity and cash flows. The effect of adopting this standard has been detailed in note 9.

Section 1400 was amended to include requirements to assess and disclose material uncertainties that may cast significant doubt upon an entity's ability to continue as a going concern. The application of this revised standard does not have a material impact on the financial position or results of operations of Master Sherman.

(l) Future accounting change:

(i) Goodwill and intangible assets:

In February 2008, the CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, to replace the existing guidance on accounting for intangible assets. The revised standards reinforce the principle-based approach to the recognition of costs as an asset and clarify the application of the matching concept of revenue and expenses. The new standards clarify the distinction between assets and expenses and add guidance on the definition of an intangible asset and the recognition of internally generated intangible assets. These accounting standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The application of this standard is not anticipated to have a material impact on the financial position or results of operations of Master Sherman.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(ii) Credit risk and the fair value of financial assets and financial liabilities:

In January 2009, the Emerging Issues Committee ("EIC") of the CICA issued EIC-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. This guidance is effective for periods ending on or after January 2009, early adoption is encouraged. The application of this Abstract does not have a material impact on the financial position or results of the operations of Master Sherman.

(iii) Transition to 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 by January 1, 2011. Master Sherman will adopt all of the International Financial Reporting Standards in accordance with AcSB's plan. The impact of the adoption of these standards is not known at this time.

2. Mortgages payable:

The mortgages are secured by first charges on the revenue-producing properties, bear interest at 5.8125% and are repayable in monthly payments of \$58,755 commencing February 2009 and mature on January 5, 2017.

The mortgages payable have interest only payments until January 2009.

FL MASTER SHERMAN, LTD.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

2. Mortgages payable (continued):

At December 31, 2008, the mortgages are repayable as follows:

	FL Creekview Ltd.	FL Country Village, Ltd.	December 31, 2008
2009	\$ 62,051	\$ 47,773	\$ 109,824
2010	70,997	54,661	125,658
2011	75,295	57,971	133,266
2012	78,933	60,771	139,704
2013	84,628	65,153	149,781
Thereafter	5,278,096	4,063,671	9,341,767
	5,650,000	4,350,000	10,000,000
Financing costs	69,506	81,770	151,276
	\$ 5,580,494	\$ 4,268,230	\$ 9,848,724

The lender also requires amounts to be held in escrow for estimated annual property taxes, insurance and various maintenance costs, which at December 31, 2008, was \$305,745 (2007 - \$166,269).

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 purpose of these consolidated financial statements and bear interest at 8% per annum and are due on December 15, 2011. During the six-month period before the maturity date 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.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

4. Partners' equity:

The Amended and Restated Agreement of Limited Partnership dated as of December 15, 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 December 31, 2008, 2,845,156 limited partnership units (2007 - 2,845,449) were issued and outstanding. All of the 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 4% of rental revenue.

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. Amounts due from/to other related parties are due on demand, are unsecured and non-interest bearing as follows:

	2008	2007
Due from:		
First Leaside Properties Limited Partnership	\$ 2,325,324	\$ 3,466,329
FL Raintree, Ltd., a subsidiary of First Leaside Properties Limited Partnership	—	50,000
	<u>\$ 2,325,324</u>	<u>\$ 3,516,329</u>

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

6. Related party balances (continued):

Master Sherman earned interest income of \$232,009 in respect of the amounts due from First Leaside Properties Limited Partnership for the year ended December 31, 2008 (2007 - \$35,729).

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

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 Master Sherman. Except as disclosed elsewhere, amounts due from/to entities within the First Leaside Group of Companies are due on demand, are unsecured and non-interest bearing as follows:

	2008	2007
Due from First Leaside Properties Fund	\$ -	\$ 113,181
Due to First Leaside Properties Fund	\$ (48,110)	\$ -

FL MASTER SHERMAN, LTD.

(A TEXAS LIMITED PARTNERSHIP)

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

8. Promissory notes payable:

The promissory notes payable are unsecured and non-recourse, bear interest at 9% per annum and are due in 10 years from issuance (between August 1, 2017 and September 30, 2018) as follows:

	2008		2007	
	Canadian	U.S.	Canadian	U.S.
Series A	\$ -	\$ 2,000	\$ -	\$ 2,000
Series B	2,958,877	2,429,238	2,916,195	2,941,858
Series C	803,629	659,779	712,892	719,165
	3,762,506	3,091,017	3,629,087	3,663,023
Unamortized call premium derivative	-	14,517	-	15,289
	\$ 3,762,506	\$ 3,105,534	\$ 3,629,087	\$ 3,678,312

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 year ended December 31, 2008 was \$64,111 (2007 - \$12,364).

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 December 31, 2007, the fair value of the embedded derivative asset is \$24,000, which increased to \$26,000 as at December 31, 2008. The increase in the fair value of the embedded derivative asset of \$2,000 for the year ended December 31, 2008 is recorded in the consolidated statement of operations. 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 \$316,904 in respect of the promissory notes due to First Leaside Properties Fund (the "Fund") for the year ended December 31, 2008 (2007 - \$67,868).

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

9. 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 December 31, 2008, 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 year 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 December 31, 2008 is:

Cash	\$	29,618
Accounts receivable and deposits		12,828
Deposits in escrow		305,745
Due from related parties		2,325,324
		<hr/>
	\$	2,673,515

The majority of Master Sherman's cash and escrow balances are held with highly rated financial institutions 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.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

9. 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.

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

	2008	2007
	(In Canadian dollars)	
Due from related parties	\$ 2,822,050	\$ 3,316,151
Promissory notes payable	(3,762,506)	(3,629,087)
	<u>\$ (940,456)</u>	<u>\$ (312,936)</u>

A \$0.10 strengthening of the U.S. dollar against the Canadian dollar at December 31, 2008 have increased the loss for the year by approximately \$94,000 for the year ended December 31, 2008. 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 December 31, 2008 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 is sufficient cash flow to meet operational requirements.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

9. Risk management and financial instruments (continued):

(e) Fair values of financial instruments:

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

As at December 31, 2008, 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.

10. 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, business expansion and other strategic objectives.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

10. Capital management (continued):

(a) Capital structure:

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

	2008	2007
Mortgages payable	\$ 9,848,724	\$ 9,836,324
Long-term debt	500,000	500,000
Promissory notes payable	3,105,525	3,678,312
Total debt	13,454,249	14,014,636
Cash	29,618	314,595
Net debt	13,424,631	13,700,041
Partners' equity	839,131	2,365,697
	\$ 14,263,762	\$ 16,065,738

(b) Financial covenants:

There are no external restrictions on Master Sherman's capital.

11. 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 professional fees of \$992,287 for the year ended December 31, 2008.

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Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars, unless otherwise indicated)

Years ended December 31, 2008 and 2007

12. Subsequent event:

Subsequent to year end, Master Sherman received proceeds of \$5,750,000 from the issuance of promissory notes payable in accordance with the Note Purchase Agreement (note 11).

13. Comparative figures:

Certain 2007 figures have been reclassified to conform with the financial statement presentation adopted in 2008.