

Homburg Invest Inc.
Consolidated Financial Statements
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
(See note 1 regarding the going concern uncertainties)

December 31, 2011

Contents

	<u>Page</u>
Auditors report	1
Consolidated Balance Sheets	3
Consolidated Statements of Loss	4
Consolidated Statements of Comprehensive Loss	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to IFRS Consolidated Financial Statements	8 - 38

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Homburg Invest Inc.

We have audited the accompanying consolidated financial statements of **Homburg Invest Inc. (the "Company")**, which comprise the consolidated balance sheets as at December 31, 2011 and 2010 and the consolidated statements of loss, comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Homburg Invest Inc.** as at December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 of the consolidated financial statements which indicates that the Company and certain of its subsidiaries filed for creditor protection under the Companies' Creditors Arrangement Act ("CCAA"). It is not possible to predict the outcome of the CCAA proceedings, and confirmation by the court of a plan or plans of reorganization that satisfies the requirements of the CCAA is subject to material uncertainty. In addition, Note 1 of the consolidated financial statements indicates the Company was notified of and objected to the decision of the Authority for the Financial Markets in the Netherlands ("AFM") to withdraw Homburg Invest Inc.'s license as an investment company and to wind-up its current activities within six months of the date of the decision meaning by May 24, 2012. The Company is requesting that the AFM reconsider its decision but whether the Company will be able to reinstate its license is subject to material uncertainty. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

Ernst & Young LLP

Halifax, Canada,
April 30, 2012

Chartered Accountants

Homburg Invest Inc.
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
Consolidated Balance Sheets

(CAD \$ thousands except per share amounts)	Note	December 31 2011	December 31 2010
Assets			
Non-current assets			
Investment properties	12	\$ 1,224,291	\$ 1,401,727
Investment properties under development	12	143,768	217,363
Investments, at fair market value	8	28,278	8,864
Investment in an associate, at equity	9		191,702
Restricted cash	10	8,514	4,088
Deferred tax assets	17	950	8,316
		<u>1,405,801</u>	<u>1,832,060</u>
Current assets			
Cash and cash equivalents		20,523	13,617
Investment, at fair market value	8	120,222	
Properties under development for resale	11	26,487	36,932
Receivables and other	7	31,472	36,025
		<u>198,704</u>	<u>86,574</u>
Assets classified as held for sale	18	123,742	144,247
		<u>322,446</u>	<u>230,821</u>
Total assets		<u>\$ 1,728,247</u>	<u>\$ 2,062,881</u>
Equity and Liabilities			
Total equity	20	<u>\$ (270,349)</u>	<u>\$ 101,676</u>
Non-current liabilities			
Long term debt	16	595,324	1,433,340
Derivative financial instruments	23		21,847
Deferred tax liabilities	17	22,152	40,055
Other liabilities	13		10,340
Provisions	14	869	10,287
		<u>618,345</u>	<u>1,515,869</u>
Current liabilities			
Accounts payable and other liabilities	13	62,210	102,783
Income taxes payable	17	5,491	8,243
Construction financing	15	7,414	40,231
Current portion of long term debt	16	392,343	185,168
Provisions	14	3,624	16,922
Derivative financial instruments	23	26,850	
Liabilities subject to compromise	19	794,383	
		<u>1,292,315</u>	<u>353,347</u>
Liabilities associated with assets classified as held for sale	18	87,936	91,989
		<u>1,380,251</u>	<u>445,336</u>
Total liabilities		<u>1,998,596</u>	<u>1,961,205</u>
Total equity and liabilities		<u>\$ 1,728,247</u>	<u>\$ 2,062,881</u>

Basis of financial statement presentation and going concern uncertainties	1
Commitments	26
Contingent liabilities	27
Subsequent events	31

Approved by the Board, April 30, 2012

"Signed"

 Hartmut Fromm
 Director

"Signed"

 Edward P. Ovsenny
 Director

Homburg Invest Inc.
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
Consolidated Statements of Loss
Year Ended December 31

(CAD \$ thousands except per share amounts)	Note	2011	2010
Property revenue	29	\$ 127,177	\$ 133,004
Sale of properties developed for resale		<u>12,789</u>	<u>15,061</u>
Total revenues		<u>139,966</u>	<u>148,065</u>
Property operating expenses	29	25,309	25,628
Cost of sale of properties developed for resale		<u>12,649</u>	<u>21,369</u>
		<u>37,958</u>	<u>46,997</u>
Gross income from operations		102,008	101,068
General and administrative		(24,728)	(14,820)
Expenses relating to CCAA filings		(13,151)	
Stock based compensation		(29)	(88)
Other income (expense), net		(2,239)	6,422
Dividend income		2,202	431
Share of loss of an associate	9	(15,652)	(12,628)
Gain on sale of investments			3,600
Gain on sale of subsidiary			107,164
Impairment on properties			
under development for resale	11	(2,455)	(7,811)
Net adjustment to fair value of:			
Investment properties	12	(196,391)	(40,221)
Investment properties held for sale		(15,116)	9,109
Investment properties under development	12	(58,957)	(16,777)
Held for trading financial assets	8, 23	32,490	88
Derivative financial instruments	23	(5,299)	(677)
Interest expense	13,16	(103,436)	(110,648)
Interest expense on liabilities subject to compromise	19	(31,363)	
Accelerated accretion expense	16	(36,787)	
Foreign exchange gain		22,951	20,147
Contract termination claim	25p,m	(14,908)	
Change in provision	14	<u>(3,940)</u>	<u>5,161</u>
Income (loss) from continuing operations before income taxes		<u>(364,800)</u>	<u>49,520</u>
Income tax expense (recovery)	17	<u>(4,953)</u>	<u>31,197</u>
Net income (loss) from continuing operations		(359,847)	18,323
Net loss from discontinued operations after tax	18	<u>(459)</u>	<u>(106,377)</u>
Net loss		<u>\$ (360,306)</u>	<u>\$ (88,054)</u>
Earnings (loss) per share	21		
Per Class A Subordinate Voting Share and Class B Multiple Voting Share:			
Basic and Diluted			
Net earnings (loss) from continuing operations		<u>\$ (16.42)</u>	<u>\$ 0.75</u>
Net loss from discontinued operations		<u>\$ (0.02)</u>	<u>\$ (5.27)</u>
Net loss per share		<u>\$ (16.44)</u>	<u>\$ (4.52)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Homburg Invest Inc.
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
Consolidated Statements of Comprehensive Loss
Year Ended December 31

(CAD \$ thousands except per share amounts)	Note	2011	2010
Net loss		\$ (360,306)	\$ (88,054)
Other comprehensive income (loss):			
Unrealized foreign currency translation gain (loss)		7,243	(48,030)
Realized foreign currency translation loss			(24,407)
Deferred income tax (expense) recovery	17, 20	<u>(165)</u>	<u>9,410</u>
		<u>7,078</u>	<u>(63,027)</u>
Foreign currency gain (loss) on financial instruments designated as hedges of self sustaining foreign operations		(18,490)	49,750
Disposal			3,163
Deferred income tax expense		<u>(18,490)</u>	<u>(7,920)</u>
			<u>44,993</u>
Other comprehensive income (loss)	20	<u>(11,412)</u>	<u>(18,034)</u>
Comprehensive loss		<u>\$ (371,718)</u>	<u>\$ (106,088)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Homburg Invest Inc.
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
Consolidated Statements of Changes in Equity
Year Ended December 31
(CAD \$ thousands except per share amounts)

	Other Paid in Capital	Share Capital	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total
December 31, 2009	34,435	691,785	12,756	19,224	(558,129)	200,071
Equity contribution (net of tax)			4,932			4,932
Comprehensive loss				(18,034)	(88,054)	(106,088)
Shares issued re: DIM 2010	(11,489)	11,489				
Homburg Capital Securities A (Note 20d)	6,225				(3,133)	3,092
Acquisition & cancellation of own shares		(2,240)	1,821			(419)
Stock based compensation			88			88
December 31, 2010	29,171	701,034	19,597	1,190	(649,316)	101,676
Comprehensive income (loss)				(11,412)	(360,306)	(371,718)
Homburg Capital Securities A (Note 20d)	(29,171)				28,935	(236)
Acquisition & cancellation of own shares (Note 20b and c)		(631)	531			(100)
Stock based compensation			29			29
December 31, 2011	\$ 29,171	\$ 700,403	\$ 20,157	\$ (10,222)	\$ (980,687)	\$ (270,349)

The accompanying notes are an integral part of these consolidated financial statements.

Homburg Invest Inc.
(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)
Consolidated Statements of Cash Flows
Year Ended December 31

(CAD \$ thousands except per share amounts)	Note	2011	2010
Cash obtained from (used in)			
Operating activities			
Net income (loss) from continuing operations		\$ (359,847)	\$ 18,323
Items not affecting cash:			
Gain on sale of subsidiary			(107,164)
Realized valuation changes			(3,600)
Fair market value changes on:			
Investment properties		196,391	40,221
Investment properties held for sale		15,116	(9,109)
Development properties		58,957	16,777
Impairment loss on properties under development		2,455	7,811
Accretion on provisions		2,973	750
Change in provisions	14	3,940	(5,161)
Rent paid on provisions		(7,866)	(2,301)
Loss on derivative instruments		5,299	677
Distribution income from associate		8,576	8,188
Amortization of financing fees		16,396	4,703
Loss from associate		15,652	12,628
Deferred rental (income) loss		398	(4,849)
Deferred income taxes		(9,138)	42,794
Stock based compensation		29	88
Fair value change in financial assets		(32,490)	(88)
Accelerated accretion of HCSA		36,787	
Foreign exchange gain		(22,951)	(20,147)
		(69,323)	541
Change in non-cash working capital and other	22	59,098	(20,803)
Net cash (used in) from continuing operations		(10,225)	(20,262)
Net cash (used in) from discontinued operations	18	971	3,744
Net cash (used in) from operating activities		(9,254)	(16,518)
Investing activities			
Investment in investment properties		(2,584)	(1,908)
(Increase) decrease in restricted cash		(4,426)	639
Proceeds on sale of development properties		39,703	
Proceeds on sale of investments		60,480	10,340
Purchase of long term investments			(1,079)
Investment in development properties		(33,802)	(44,644)
Discontinued operations	18	(399)	103,332
Net cash (used in) from investing activities		58,972	66,680
Financing activities			
Decrease in demand loans		(6,881)	(41,648)
Increase (decrease) in mortgages payable		(28,228)	1,307
Repayment of bonds			(51,429)
Decrease in related party receivable		7,409	10,220
Increase (decrease) in deferred financing charges		(203)	2,499
Repurchase of common shares and issue costs		(100)	(419)
Decrease in related party payable		(1,697)	(3,556)
Increase (decrease) in construction financing		(7,855)	3,925
Homburg Capital Securities A proceeds	20d		4,598
Discontinued operations	18	(5,257)	5,389
Net cash used in financing activities		(42,812)	(69,114)
Increase in cash		6,906	(18,952)
Cash, beginning of year		13,617	32,569
Cash, end of year		\$ 20,523	\$ 13,617

Supplemental cash flow information 22

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

1. Basis of financial statement presentation and going concern uncertainties

On September 9, 2011 (the "Filing Date"), Homburg Invest Inc ("HII") and certain of its subsidiaries (the "Applicants") obtained an order (the "Initial Order") from the Superior Court of Quebec (Commercial Division) (the "Court") granting creditor protection under the Companies Creditors Arrangement Act (the "CCAA") (the "CCAA proceedings" or "Creditor Protection Proceedings"). Samson Bélair/Deloitte & Touche Inc. was appointed by the Court as Monitor in the CCAA proceedings (i) the Applicants are provided with the authority to, among other things, continue operating the Applicant's business (subject to Monitor and/or Court approval for certain activities), file with the Court and submit to creditors a plan of compromise or arrangement under the CCAA (the "Plan") in order to operate an orderly restructuring of the Applicants' business and financial affairs, in accordance with the terms of the Initial Order; (ii) all persons having agreements with the Applicants for the supply of goods and services must continue to provide goods and services in the normal course of business; and (iii) no person shall discontinue, fail to honour, alter, interfere with, repudiate, resiliate, cancel, terminate or cease to perform any right, renewal right, contract, agreement, license or permit in favour of or held by the Applicants, except with written consent of the Applicants and the Monitor, or with the leave of the Court.

The Initial Order also provides for a general stay and, pursuant to subsequent orders of the Court rendered on October 7, 2011, December 8, 2011 and March 16, 2012, this stay period was extended respectively to December 9, 2011, March 16, 2012 and May 31, 2012. The stay period is subject to further extensions as the Court may deem appropriate.

The consolidated financial statements do not purport to reflect or provide for the consequences of the CCAA proceedings. In particular, such consolidated financial statements do not purport to show: (a) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (b) as to pre-petition liabilities, all amounts that may be allowed for claims or contingencies, or the status and priority thereof, or the amounts at which they may ultimately be settled; or (c) as to shareholders' accounts, the effect of any changes that may be made in HII's capitalization.

The Creditor Protection Proceedings have had a direct impact on HII's business and have compounded the Company's operational risks. The actions and decisions of the Company's creditors and other third parties with interests in the Creditor Protection Proceedings may be inconsistent with the Company's plans and therefore could cause actual events to differ materially from those contemplated by the Company. These risks and uncertainties could affect HII's business and operations in various ways. For example, negative events associated with the Creditor Protection Proceedings could adversely affect the Company's operations and financial condition, sales, customer relationships, employees and vendors. These risks include whether or not HII will be able to continue as a going concern in light of the ongoing CCAA proceedings. Since the Company has filed for and been granted creditor protection, the consolidated financial statements continue to be prepared using the going concern basis, which assumes that HII will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. It is not possible to predict the outcome of the CCAA proceedings and, as such, as more fully described in note 3, confirmation by the court of a plan or plans of reorganization that satisfies the requirements of the CCAA is subject to material uncertainty and therefore the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business are each subject to significant doubt. If the going concern basis is not appropriate, adjustments will be necessary to the carrying amounts and/or classification of HII's assets and liabilities. Further, a court approved plan in connection with the CCAA proceedings could materially change the carrying amounts and classifications reported in the consolidated financial statements. For additional information, see note 3.

On September 12, 2011, after receiving notification of the stay being granted in Canada, pursuant to the CCAA proceedings the NYSE Euronext Amsterdam ("AEX") stopped trading on the Company's Class A subordinate voting shares. The AEX transferred the shares of the Company from trading group J7 to trading group JC. The objective of this segment is to group together securities whose market and/or financial characteristics are affected by events that might disrupt their situation in an enduring way or threaten the fair, orderly and efficient operation of the market. For additional information on Special segment JC please see NYSE Euronext Rule book I 6.9 and NYSE Amsterdam notice 2011-001. After the announcement of the transfer to the new trading group JC, trading of the shares of HII on the AEX resumed.

On September 12, 2011 the Toronto Stock Exchange ("TSX") suspended all trading in the Class A subordinate voting shares, and the Class B multiple voting shares of the Company subject to an expedited review with respect to the Company meeting the continued listing requirements. On September 21, 2011 the Toronto Stock Exchange announced that effective October 20, 2011 it would delist the Company's Class A subordinate voting shares and Class B multiple voting shares for failing to meet its continued listing requirements. The Company's shares will remain halted.

To comply with TSX and AEX reporting requirements, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a historical cost basis, except for investment properties, development properties, derivative financial instruments and certain long term investments which are measured at fair value as more fully described in Note 8.

The Company's reporting currency is Canadian dollars ("CAD") and all values are rounded to the nearest thousand except where otherwise indicated.

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

1. Basis of financial statement presentation and going concern uncertainties (cont.)

The Company has been negatively impacted by continuing global economic conditions which have resulted in a decrease in real estate transactions and declining real estate values. The Company incurred net losses of \$360,306 and \$88,054 for the years ended December 31, 2011 and 2010, respectively, and is highly levered with no book equity at December 31, 2011 and an interest coverage ratio of 0.47:1 for the period ended December 31, 2011.

In addition to the CCAA process, the Company was notified of and objected to the decision of the Authority for the Financial Markets in the Netherlands ("AFM") to withdraw Homburg Invest's licence as an investment company and wind-up its current activities within six months of the date of the decision meaning by May 24, 2012. Homburg Invest has now made formal written submissions to the AFM requesting that the AFM reconsider its decision to revoke Homburg Invest's licence. Homburg Invest has emphasized that maintaining its licence will allow it to consider the widest number of potential alternatives for creditors, including bondholders, as part of the restructuring process. Maintaining the licence is important in that it would allow Homburg Invest to issue new equity in the Netherlands as part of the restructuring process. The Monitor is supporting Homburg Invest's initiatives in this regard. However, whether the Company will be able to reinstate its license is also subject to material uncertainty.

2. Corporate information

Homburg Invest Inc. is a corporation incorporated under the laws of Alberta, Canada. The principal place of business is 32 Akerley Blvd., Dartmouth, Nova Scotia B3B 1N1, Canada. These consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on April 30, 2012.

The Company and its subsidiaries lease, build and sell commercial and residential real estate interests located in Canada, Germany, The Netherlands, the Baltic States (Lithuania, Estonia and Latvia) and the United States of America ("USA").

3. Creditor protection proceedings

On the Filing Date, after extensive consideration of all other alternatives, with the authorization of the HII Board of Directors after thorough consultation with its advisors, HII and certain of its affiliates initiated creditor protection proceedings under the restructuring regime of Canada, under the CCAA. CCAA will allow the Company to restructure its operations and make a proposal to its creditors. The Court granted the Company protection for an initial 30 day period, which was extended pursuant to the terms of the Extension Order. While the Company is under CCAA protection, all proceedings on the part of its creditors are stayed.

The Company remains in possession of its assets and properties and is continuing to operate the business and manage properties as "debtors in possession" in accordance with the applicable provisions of the CCAA and orders of the Court. In general, the Applicants are authorized to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the approval of the Court or the Monitor, as applicable.

The Company has retained legal and financial professionals to advise it on the Creditor Protection Proceedings and may, from time to time, retain additional professionals, subject to any applicable approval.

Subject to certain exceptions under the CCAA, the Initial Order automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against the Applicants and their property to recover, collect or secure a claim arising prior to the filing of the Creditor Protection Proceedings. Thus, for example, creditor actions to obtain possession of property from the Applicants, or to create, perfect or enforce any lien against their property, or to collect on monies owed or otherwise exercise rights or remedies with respect to a pre-petition claim, are enjoined unless and until the Court lifts such stay.

In order to successfully emerge from CCAA protection, the Applicants will be required to propose and obtain approval from affected creditors and confirmation by the Court of a plan or plans of arrangement that satisfies the requirements of the CCAA. An approved plan or plans of arrangement would inter alia resolve pre-petition obligations, set forth the revised capital structure of the newly reorganized entity and provide for corporate governance following implementation. There can be no assurance however that a plan or plans of arrangement will be supported and approved by affected creditors and confirmed by the Court or that such plan will be implemented successfully.

Under the priority scheme established by the CCAA, unless creditors agree otherwise, pre-petition liabilities and post-petition liabilities must be satisfied in full before shareholders are entitled to receive any distribution or retain any property under a plan or plans of arrangement. It is too early to predict with any certainty the terms of any plan or plans of arrangement that maybe proposed to the affected creditors.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

4. Creditor protection Applicants

Presented below is a condensed combined balance sheet as at December 31, 2011 of the Applicants. The condensed combined balance sheet eliminates all intercompany balances and investments between Applicant entities. Investments in other subsidiaries are carried at cost less impairment. Where the investment and intercompany financing that is considered part of the net investment carrying value exceeds the net assets of the subsidiary, the investment and such intercompany financing has been written down to the net asset carrying value of the subsidiary.

Condensed Combined Financial Statements**Assets**

Non-current assets	\$ 147,632
Current assets	349,085
Assets classified as held for sale	<u>7,340</u>
Total assets	\$ <u>504,057</u>

Equity and Liabilities

Deficit attributable to equity holders of the parent	\$ <u>(338,490)</u>
Non-current liabilities	13,720
Current liabilities including liabilities subject to compromise	823,913
Liabilities associated with assets classified as held for sale	<u>4,914</u>
Total liabilities	<u>842,547</u>
Total equity and liabilities	\$ <u>504,057</u>

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

5. Changes in accounting policies and future applicable accounting standards

The accounting policies adopted are consistent with those of the previous financial year.

Future accounting standards and interpretations

The Company is evaluating the possible impact of a number of standards and interpretations issued by the IASB with an effective date after the date of these consolidated financial statements. The following sets out only those items which may have a material impact on the Company's consolidated financial statements in future periods.

IFRS 7 Financial Instruments Disclosure

IFRS 7 was issued by the IASB on October 7, 2010 and contains amendments to the existing IFRS 7. The amendments to IFRS enhances disclosure requirements about transfers of financial assets. The amendments of IFRS 7 are effective for annual periods beginning on or after July 1, 2011.

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amount, timing and uncertainty of an entity's future cash flows. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements

On May 12, 2011 the IASB issued IFRS 10, which will replace IAS 27, Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control is assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IFRS 11 Joint Arrangements

On May 12, 2011, IASB issued IFRS 11. The new standard replaces IAS 31, Interest in Joint Ventures. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. This may impact the jointly controlled entities which the Company currently proportionately consolidates under IFRS. The new standard will be effective for the Company's year end beginning January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The IASB issued IFRS 12 on May 12, 2011. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity and is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

IAS 12 Income taxes: Recovery of Underlying assets

In December 2010, the IASB made amendments to IAS 12, Income Taxes. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods on or after January 1, 2012. The Company has not yet determined the impact of the amendments to IAS 12 on its consolidated financial statements.

IAS 1 Presentation of Financial Statements

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. The amendments to IAS 1 retain the "one or two statement" approach to presenting the Statements of Income and Comprehensive Income at the option of the entity and only revise the way other comprehensive income is presented. This amended standard is effective for annual periods beginning on or after July 1, 2012. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures

In May 2011, the IASB amended IAS 28, Investments in Associates and Joint Ventures, previously IAS 28, Investment in Associates. The amended IAS 28 sets out the accounting for investments in associates and the requirements for application of the equity method when accounting for investments in associates and joint ventures. This standard is effective for for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is assessing the impact of this new standard on its consolidated financial statements.

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

6. Summary of significant accounting policies

General and consolidation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The consolidated financial statements comprise the financial statements of the Company, and the entities that it controls, as at December 31 each year. Control is present when a company has the power, directly or indirectly, to control the financial and operational policies of the controlled entity. In determining control, the effect of potential voting rights existing as at the balance sheet date are taken into account. The Company consolidates the entities that it controls from the moment it achieves control until the time this control ceases. Entities subject to joint control arrangements are proportionately consolidated based upon the Company's interest (Note 30). The financial statements of the consolidated and proportionately consolidated entities are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated in full.

Investment properties

The Company applies IAS 40 - Investment Property and has chosen the fair value method of presenting its investment properties in the financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's length transaction at the date of valuation. The fair value of investment properties is based on valuations by a combination of independent appraisals and management's internal valuation, where market assumptions are applied to projected cash flows and discounted to present values. Management regularly undertakes a review of its investment property revaluation between appraisal dates to assess the continuing validity of the underlying assumptions such as cashflow and market assumptions. These market assumptions are tested against market information obtained from independent industry experts. Where increases or decreases are warranted, the Company adjusts the carrying values of its investment properties. Property interests held under operating leases are not treated as investment properties.

Investment properties under development

The Company has adopted the amended IAS 40 - Investment Property, which now includes, within its scope, properties being constructed or developed for future use as an investment property. Investment properties under development are carried at fair value, to the extent that fair value is reliably determinable. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Changes to the carrying value are recognized through the consolidated income statement.

Properties under development for resale

Properties being developed for resale are accounted for in accordance with IAS 2 - Inventories and are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. To the extent there have been write downs to net realizable value, the reversal of these write downs is recognized in the subsequent period should net realizable value recover.

Capitalization of costs

The Company capitalizes investment property acquisition costs incurred at the time of purchase. For properties being developed for future use as an investment property and construction properties being developed for resale, the Company capitalizes all direct expenditures incurred in connection with the acquisition, development and construction. These expenditures consist of all direct costs and borrowing costs on debt directly attributable to a specific property, including borrowing costs incurred on the debt prior to the full utilization of the debt for the project. Borrowing costs are offset by any interest earned by the Company on borrowed funds prior to utilization. The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when the asset is ready for its intended use or active development ceases.

Revenue recognition

Management has determined that all of the Company's leases with its various tenants are operating leases. Minimum rents are recognized on a straight-line basis over the terms of the related leases. The excess of rents recognized over amounts contractually due is included with investment properties on the Company's consolidated balance sheet. The leases also typically provide for tenant reimbursements of common area maintenance, real estate taxes and other operating expenses, which are recognized as property revenue in the period earned.

Revenue on construction projects is recorded using the percentage of completion method and is included in sale of properties developed for resale in the consolidated income statement. Completion is measured based on the extent of work completed in relation to the total project.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

6. Summary of significant accounting policies (cont.)

Revenue from the sale of properties developed for resale, including condominium units, is recorded upon completion when sale proceeds and costs can be reliably measured, collection of sale proceeds is reasonably assured, and all other significant criteria respecting transfer of risks and rewards of ownership are met which is generally based on an assessment of the terms of each significant construction contract. Construction properties which have been sold but for which these criteria have not been satisfied are included in construction properties being developed for resale in the consolidated balance sheet. There were no such properties at December 31, 2011 or December 31, 2010.

The Company has concluded that it is acting as a principal, as opposed to an agent, in all of its revenue arrangements.

Income taxes

The Company follows the tax liability method for determining income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the carrying amounts and tax bases of specific balance sheet items. Deferred tax assets are recognized for all deductible temporary differences to the extent it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse, and adjustments are recognized in earnings as they occur.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts with a right of offset, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

Foreign currency

Operations outside of Canada use their functional currency for recording all transactions. The financial statements of these foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated to Canadian dollars at year-end exchange rates while revenues and expenses are converted using the transaction date which is typically represented by average exchange rates. Gains and losses arising on translation of these subsidiaries are included in accumulated other comprehensive income within shareholders' equity. For transactions denominated in other than an entity's functional currency, monetary assets and liabilities are translated at current rates and revenues and expenses are translated using the transaction date rate which is typically represented by average exchange rates for the period, and gains and losses are included in earnings of the applicable reporting period.

Stock options and contributed surplus

The Company has an equity-settled stock-based compensation plan (Note 20). Grants under this plan are accounted for in accordance with the fair value based method of accounting for such plans.

Long term investments

Long term investments are classified as held for trading and measured at fair value, with any changes during the year being included in the determination of net income.

Investment in an associate

The Company holds a portfolio investment in CANMARC Real Estate Investment Trust (formerly Homburg Canada Real Estate Investment Trust) ("CANMARC"). The investment is classified as held for trading and measured at fair value, with any changes during the year being included in the determination of net income.

Derivative financial instruments

The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on certain of its long term debt. The current interest rate swaps do not qualify for hedge accounting and are adjusted to fair value and recognized in net income in the reporting period. The Company also has entered into currency guarantee agreements related to mortgage bonds payable. These derivative financial instruments, which were terminated on December 6, 2010, are adjusted to fair value in net income in the relevant reporting period.

Financial asset recognition

The Company applies settlement date accounting to the purchase and sale of financial assets. Under settlement date accounting, the recognition or derecognition of an asset occurs when the asset is delivered to or by the Company.

Determination of cost of sales

The cost of sales of condominium units is determined using the net yield method. The total estimated cost of the completed development project is allocated between the units prorated on the selling price of the unit compared with the estimated total selling price of the entire project.

Long term debt

Long term debt is initially recognized at fair value less directly attributable transaction costs. After initial recognition, long term debt is subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR calculation. The amortization is included in interest expense in the consolidated income statement.

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

6. Summary of significant accounting policies (cont.)

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- i) Operating lease commitments - Company as lessor. The Company has entered into commercial and residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it has not transferred substantially all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.
- ii) Consolidation and proportionate consolidation of Limited Partnerships (L.P.'s). A large portion of the Company's investment properties are held in L.P.'s. In certain of these L.P.'s, the Company is the sole limited partner and it has been determined that the Company is able to exercise full control. Accordingly, these entities are consolidated. In other partnerships, the Company's share is less than 100% (Note 30). Homburg LP Management Inc., a company directly and indirectly controlled by the former Chairman and CEO, acts as the general partner in all partially owned L.P.'s, except the Cedar joint venture in which the general partner is related to the minority limited partner. The Company has concluded that it is able to exercise joint control over all entities which are less than 100% owned, primarily established by terms which require the unanimous consent of all partners for major partnership decisions. Accordingly, these entities are proportionately consolidated.

Estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognised in the consolidated financial statements:

- i) Valuation of investment properties. Investment properties comprises real estate (land or buildings or both) held by the Company in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business. Investment properties are presented at fair value at the reporting date. Any change in fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. Management's internal assessments of fair value are based upon internal financial information and are corroborated by capitalization and discount rates obtained from independent industry experts. Management's internal valuations and independent appraisal values obtained are both subject to significant judgment, estimates and assumptions about market conditions in effect at the reporting date.
- ii) Valuation of investment properties under development. Investment properties being constructed or developed are carried at fair value, to the extent that fair value is reliably determinable, with changes in fair value recognized in the Consolidated Statement of Loss. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates, future net operating income, project costs to complete, discount rates and future cash flows applicable to investment properties, respectively. The fair value of land to be developed for future use as an investment property is based on recent comparable market transactions, plus costs incurred that enhance the land value.
- iii) Valuation of properties under development for resale. Properties under development for resale are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. Estimated selling prices are supported by recent comparable market transactions.

The Company's determination of fair values and net realizable value for investment properties, properties under development and properties under development for resale assumes the Company will operate in the normal course of business and do not reflect forced liquidation sale assumptions. Should the Company have to sell property on a forced or liquidation basis, the amounts that could be realized could differ materially from the Company's fair value and net realizable value estimates.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

6. Summary of significant accounting policies (cont.)

- iv) Income taxes. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In addition, the Company operates in a number of jurisdictions and its legal structure is complex. The computation of the Company's income tax provision and deferred tax balances involves many factors including interpretation of relevant tax legislation in each of the jurisdictions in which the Company operates. When applicable, the Company adjusts the previously recorded tax provision and associated tax assets and liabilities to reflect changes in estimates and for any tax assessments levied.
- v) Fair value of financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
- vi) Provisions. The Company has entered into certain operating lease commitments with respect to head leases which are potentially onerous, depending on the Company's ability to recover its obligations through sub-leases with sub-tenants. The Company estimates the amounts it may be able to recover using current market data concerning leasing rates and tenant incentives and estimates of time expected to sub-lease any vacant space. Changes in assumptions about these factors could affect the reported amount of provisions. Due to the CCAA filing and the resiliation of certain leases, a portion of the provision amount is now considered an estimate of the counterparty's probable termination claim against the company and has been reclassified to Liabilities subject to compromise (Note 19).
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7. Receivables and other

Trade receivables	\$	<u>30,647</u>	\$	27,955
Prepays		825		661
Related party receivable (Note 25m)				7,409
		<u>\$ 31,472</u>		<u>\$ 36,025</u>

8. Investments, at fair market value

		<u>2011</u>		<u>2010</u>
Current amounts				
CANMARC REIT (a) (Note 9)	\$	<u>120,222</u>	\$	<u> </u>
Non-Current amounts				
Cedar Shopping Centers, Inc. (b)	\$	428	\$	564
CANMARC REIT (a)		20,800		
HEEF B.V. (c)		6,257		7,221
Homburg MediArena B.V. (d)		793		1,079
	\$	<u>28,278</u>	\$	<u>8,864</u>

- (a) The Company holds 8,813,866 units of CANMARC REIT, a real estate investment trust listed on the Toronto Stock exchange (TSX: CMQ.UN). 1,300,000 of these units are pledged as security in favour of headleases with CANMARC (Note 25) and are presented as non-current. The investment is carried at fair value. Subsequent to year end the Company sold all units in CANMARC REIT and the value related to the pledged units will be recorded as restricted cash subsequent to year end (Note 31).
- (b) The Company holds 50,000 (December 31, 2010 - 50,000) common shares of Cedar Shopping Centers, Inc. ("Cedar") a real estate investment trust listed on the New York Stock Exchange (NYSE: CDR). The investment is carried at fair value.
- (c) The Company holds a 20% interest in Homburg Eastern European Fund B.V. ("HEEF B.V."), which primarily owns properties currently under development in the Baltic States. HEEF B.V.'s financial statements, prepared in accordance with IFRS using the fair value model for investment properties, are used to determine the fair value of the Company's investment based on its ownership interest in the net assets of the B.V. The Company does not have the ability to participate in the financial and operating policy decisions of HEEF B.V., and as such does not apply equity accounting to its investment.
Management believes that the estimate of fair value of the investment in HEEF at December 31 is reasonable, assuming the project continues to be developed as originally intended. However, in order to proceed as originally intended, there will be further funding required by HEEF from investors or lenders. There is no certainty that efforts to attract the necessary additional funding to continue development will be successful.
In addition, subsequent to year end (Note 31), on April 5, 2012, the Company has agreed to surrender the full amount of the units it owns in HEEF as payment on the remaining amount due by the Company to HEEF (\$5,569 as at December 31, 2011). Should the proceeds received by HEEF in the ultimate resale of the units be insufficient to recover the amounts owed by the Company, there may be an additional claim against the Company.
- (d) The Company holds a 10% interest in Homburg MediArena B.V., which owns an investment property in the Netherlands. The Company does not have the ability to participate in the financial and operating policy decisions of Homburg MediArena B.V., and as such does not apply equity accounting to its investment (Note 25).
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Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

9. Investment in an associate, at equity

	<u>2011</u>	<u>2010</u>
CANMARC Real Estate Investment Trust (formerly Homburg Canada Real Estate Investment Trust) ("CANMARC")		
Balance, beginning of the year	\$ 191,702	\$ NIL
Acquisition of investment		212,518
Distributions received	(8,576)	(8,188)
Deemed disposition	(85,042)	(12,693)
Share of net income	8,911	65
Reclassification of investment to portfolio investments (Note 8)	(106,995)	
Balance at December 31, 2011	<u>\$ 191,702</u>	<u>\$ 191,702</u>
Share of loss of an associate		
Disposition and dilution losses	\$ (24,563)	\$ (12,693)
Share of net income	8,911	65
	<u>\$ (15,652)</u>	<u>\$ (12,628)</u>

On May 25, 2010, the Company transferred substantially all of its Canadian income producing assets and related mortgage debts to CANMARC in return for cash and units of CANMARC providing the Company with significant influence over CANMARC.

On February 23, 2011 the Company announced its participation in a public offering of CANMARC (the "Units") with CANMARC on a bought deal basis. The Company sold 2.5 million Units for net proceeds of \$27,360. The underwriters exercised their over-allotment option, resulting in a total of 8.598 million Units being issued and HII's voting ownership in CANMARC decreasing from 33.7% to 23.1%. These transactions resulted in a net deemed disposition loss of approximately \$11,453.

On September 13, 2011 the Company announced its participation in a subsequent public offering of Units with CANMARC on a bought deal basis. The Company sold 3 million Units for net proceeds of \$33,120. The underwriters exercised their over-allotment option, resulting in a total of 3.325 million Units being issued and HII's voting ownership in CANMARC decreasing from 23.1% to 16.1%. These transactions resulted in a net deemed disposition loss of approximately \$13,110.

As a result of the decreased ownership the Company no longer has significant influence in CANMARC and has reclassified its investment as a portfolio investment (Note 8). The carrying value of the investment was adjusted to the trading price of CANMARC units at the time of the reclassification and the impact is reflected in the statement of loss as part of net adjustment to fair value of held for trading financial assets.

The Company's share of the results of the associate and its aggregated assets and liabilities as at December 31, 2011 and for the year ended December 31, 2010 under IFRS are as follows:

	<u>2011</u>	<u>2010</u>
Non-current assets	\$	\$ 392,524
Current assets		20,671
	<u>\$</u>	<u>\$ 413,195</u>
Non-current liabilities	\$	\$ 214,442
Current liabilities		10,096
	<u>\$</u>	<u>\$ 224,538</u>
Revenue	<u>\$ 33,618</u>	<u>\$ 33,182</u>
Net income before bargain purchase gain	<u>\$ 8,911</u>	<u>\$ 65</u>
Bargain purchase gain	<u>\$</u>	<u>\$ 69,380</u>

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

10. Restricted cash

Restricted cash includes deposits on real estate properties, refundable commitment fees, security deposits and reserve accounts related to certain borrowing arrangements.

11. Properties under development for resale

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 36,932	\$ 73,957
Construction and development costs capitalized	(16)	627
Disposals (Note 25 p)		(8,472)
Impairment loss	(2,455)	(7,811)
Cost of properties sold	<u>(7,974)</u>	<u>(21,369)</u>
Balance, end of year	<u>\$ 26,487</u>	<u>\$ 36,932</u>

The Company classifies its construction properties under development for resale as current assets. The Company expects these properties to be completed within their normal operating cycle for such properties, which may extend beyond one year. The Company's construction properties under development for resale include condominium developments that have yet to fully realize their cash flow from sales of units.

12. Investment properties

	<u>Investment Properties</u>		<u>Investment Properties Under Development</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,401,727	\$ 2,739,415	\$ 217,363	\$ 245,896
Capital expenditure	2,514	4,175	35,707	27,615
Capitalized interest			5,222	16,953
Deferred rental receipts	(398)	4,997		
Disposals and transfers	13,902	(1,117,939)	(55,567)	(56,324)
Currency translation adjustment	2,937	(188,700)		
Unrealized fair value adjustment	<u>(196,391)</u>	<u>(40,221)</u>	<u>(58,957)</u>	<u>(16,777)</u>
Balance, end of year	<u>\$ 1,224,291</u>	<u>\$ 1,401,727</u>	<u>\$ 143,768</u>	<u>\$ 217,363</u>

Investment properties are stated at fair value using the following methods, estimates and key assumptions:

(i) External appraisals

At December 31, 2011 external appraisals were obtained for investment properties in United States, the Baltics, the Netherlands and Canada with an aggregate fair value of \$300 million (2010 - \$1,296 million) representing 24.5% (2010 - 92.5%) of the fair value at that date, and for an aggregate fair value of \$142 million (2010 - \$98 million) for investment properties under development, representing 98.9% (December 31, 2010 - 45.1%) of the fair value at that date.

(ii) Discounted Cash Flow Method of Valuation

This method was used for income producing properties in Germany and the Netherlands and it applied market driven discount rates to 10-year projected cash flows. The cash flow projections are based on contracted rent, budgeted expenses and market assumptions at renewal. Market assumptions and yields were obtained by external knowledgeable property valuers in Germany and the Netherlands. The discounted cash flow method of valuation was reconciled to the capitalized net operating income method using net initial yields to ensure valuation accuracy and reasonableness. To the extent that the contracted rent and externally provided market assumptions change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly. The Company utilized the following weighted average capitalization rates and has determined that an increase (decrease) in the applied discount rate of 0.10% in any geographical segments would result in an increase or decrease in the fair value of the investment properties as follows:

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

12. Investment properties (cont.)

	2011			2010		
	Average Capitalization Rate	Impact of 0.10% change Increase	Decrease	Average Capitalization Rate	Impact of 0.10% change Increase	Decrease
Germany	7.39 %	\$ 9,155	\$ 8,910	6.33 %	\$ 11,685	\$ 12,061
The Netherlands	7.68 %	4,244	4,135	7.46 %	5,221	5,353
The Baltic States	7.36 %	2,820	2,744	7.89 %	2,607	2,674
Canada	9.50 %	85	83			
USA	8.65 %	262	257	8.61 %	251	256
Overall	7.50 %	\$ 16,566	\$ 16,129	7.08 %	\$ 19,764	\$ 20,344

The Company has determined, based on the capitalization rates used, that an increase (decrease) in the net operating income of \$1,000 in any geographic segment would result in an increase (decrease) in the fair value for that segment ranging between \$10,526 and \$13,587 (December 31, 2010 - between \$11,614 and \$15,809).

Investment properties include one property (December 31, 2010 - one property) with a fair value of \$534,132 (December 31, 2010 - \$592,540) where there is a purchase option exercisable by the tenant in 2020 for EUR €274 million.

13. Accounts payable and other liabilities

	2011	2010
Current amounts		
Payables (Note 25b)	\$ 38,732	\$ 71,321
Non-construction demand loans (a)		12,921
Notes payable	154	147
Prepaid rents and deposits	5,589	7,893
Security deposits	875	1,226
Homburg Capital Securities A (Note 16)		1,000
MoTo Objekt Campeon GmbH & Co KG (b)	10,302	
Related party payable (Note 25f)	6,558	8,275
	<u>\$ 62,210</u>	<u>\$ 102,783</u>
Non-current amounts		
Long term payables (b)	\$	\$ 10,340

The Company has no available credit facilities as at December 31, 2011(December 31, 2010 - \$20,000). \$4,582 was being utilized at December 31, 2010.

As a result of CCAA filing certain trade payables have been reclassified to liabilities subject to compromise (Note 19).

a) Non-construction demand loans consist of the following:

i) A promissory note payable plus interest in the amount of EUR €4,216 (\$5,569) (December 31, 2010 - EUR €6,291 (\$8,339)), bearing interest at 6.0% per annum. This amount is payable to a related party, has no specific repayment terms and relates to the Company's investment in HEEF B.V. (Note 25i). Due to the CCAA filing the Non-construction demand loans are in default and have therefore been reclassified as liabilities subject to compromise and falling due within one year (Note 19 and 31).

ii) Operating line of credit provided by a chartered bank in the amount of \$NIL (December 31, 2010 - \$4,582)

b) EUR €7,800 (\$10,302) (December 31, 2010 - EUR €7,800 (\$10,340)) represents the purchase price on the remaining 6.63% of MoTo Objekt Campeon GmbH & Co KG to be acquired in the first half of 2012.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

14. Provisions

Provisions of \$27,065 (December 31, 2010 - \$27,209) relate to onerous operating lease obligations with respect to head leases which commenced during 2011 and 2010 (Note 26a). The provisions are calculated based on:

- (i) the difference between the future minimum lease payments the Company is obligated to pay under the terms of the head leases and the estimated minimum rental income the Company expects to receive from sub-tenants, based on expected market conditions; plus
- (ii) the difference between tenant improvement allowances the Company is entitled to receive under the terms of the headleases and the estimated tenant improvement allowances and other lease incentives the Company expects to grant to sub-tenants, based on expected market conditions.

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 27,209	\$ 34,089
Additional reserves	4,749	(5,329)
Payments	(7,866)	(2,301)
Accretion	2,973	750
	<u>\$ 27,065</u>	<u>\$ 27,209</u>

	<u>2011</u>	<u>2010</u>
The provision is disclosed as follows:		
Non-current liabilities	\$ 869	\$ 10,287
Current liabilities	3,624	16,922
Liabilities subject to compromise	22,573	
	<u>\$ 27,066</u>	<u>\$ 27,209</u>

Due to the CCAA filing certain leases were resiliated and the provision relating to these leases is now considered an estimate of the counterparty's probable termination claim and has been reclassified to Liabilities subject to compromise (Note 19).

15. Construction financing

The Company has arranged construction financing, which is demand in nature, for its development properties. Borrowing rates on these financings are at fixed or variable market rates. The weighted average interest rate for all construction financing is 5.50% (December 31, 2010 - 5.47%). The Company has pledged its development properties as collateral. Due to the CCAA filing construction loans relating to the stayed entities have been reclassified to Liabilities subject to compromise (Note 19).

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

16. Long term debt

	<u>2011</u>	<u>2010</u>
Secured debt		
Mortgages (a)	\$ 987,608	\$ 1,034,108
Mortgage bonds (b)	<u>987,608</u>	<u>135,846</u>
		<u>1,169,954</u>
Unsecured debt		
Corporate non-asset backed bonds (c)		410,963
Junior subordinated notes (d)		<u>53,145</u>
		<u>464,108</u>
	<u>987,608</u>	<u>1,634,062</u>
Less: Deferred financing charges, net of accumulated amortization of \$614 (December 31, 2010 - \$14,881)	<u>59</u>	<u>(15,554)</u>
	<u>987,667</u>	<u>1,618,508</u>
Less: current portion	<u>392,343</u>	<u>185,168</u>
Long term debt	\$ <u>595,324</u>	\$ <u>1,433,340</u>

a) Mortgages

Long term debt has both fixed and variable interest rates. At period end the contractual weighted average interest rate for variable rate long term debt was 2.59% and for fixed rate long term debt was 5.16% (December 31, 2010 - variable - 1.81%, fixed - 6.08%). Scheduled principal installments and principal maturities on long term debt are as follows:

	<u>Mortgages</u>		Bonds, HCSA and Junior Subordinated Notes	<u>Total</u>	<u>Weighted Average Interest Rate of Maturing Debt</u>
	<u>Normal Principal Installments</u>	<u>Principal Maturities</u>			
Within 1 year	\$ 14,839	\$ 377,504	\$	\$ 392,343	3.80%
1-2 years	15,555	47,065		62,620	5.42%
2-3 years	14,269	33,185		47,454	5.17%
3-4 years	12,396	1,616		14,012	8.44%
4-5 years	11,315	48,529		59,844	4.44%
Later		411,335		411,335	4.58%
	<u>\$ 68,374</u>	<u>\$ 919,234</u>	<u>\$</u>	<u>\$ 987,608</u>	

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

16. Long term debt (cont.)

Mortgage principal maturities include loans of \$278,790 which were in default of their lending covenants at December 31, 2011 and accordingly have been classified as falling due within one year. As well a balance of \$14,725 at December 31, 2011 was reclassified to liabilities subject to compromise (Note 19).

Specific investment properties and properties under development for resale with a fair market value of \$1,274,093 (December 31, 2010 - \$1,476,886) and an assignment of specific leases have been pledged as collateral for mortgages and for mortgage bonds payable. Included in mortgages are the following foreign denominated amounts, translated at period end exchange rates:

US dollar denominated	USD	\$	<u>5,123</u>	\$	<u>6,998</u>
	CAD	\$	<u>5,225</u>	\$	<u>7,000</u>
EURO denominated	EUR	€	<u>737,292</u>	€	<u>756,783</u>
	CAD	\$	<u>973,815</u>	\$	<u>1,003,192</u>

b) Mortgage bonds payable

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
HMB4	Nov. 30, 2011	7.50%	EUR €20,010	EUR €20,010	\$	\$ 26,525
HMB5	Dec. 31, 2011	7.50%	EUR €20,010	EUR €20,010		26,525
HMB6	June 30, 2012	7.50%	EUR €31,230	EUR €31,230		41,398
HMB7	June 30, 2012	7.25%	EUR €31,230	EUR €31,230		41,398
					<u>\$</u>	<u>\$ 135,846</u>

The mortgage bonds are seven year bonds issued in series and secured by a first or second charge over specific assets and a corporate guarantee. Due to the CCAA filing the Mortgage bonds are in default and have therefore been reclassified as liabilities subject to compromise (Note 19) and falling due within one year. Although HMB4 and HMB5 have reached their maturity dates, the principal balance of the bond is stayed due to the CCAA filing. The discount associated with deferred financing charges has also been eliminated and is included in interest expense. Mortgage bonds payable are translated at period end exchange rates.

The interest is payable semi-annually on June 30 and December 31. The Company, however, does not anticipate that it will be required to make such payments during the pendency of the CCAA proceedings. The amount of interest accrued is also included in liabilities subject to compromise (Note 19).

c) Corporate non-asset backed bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
HB8	May 31, 2013	7.00%	EUR €50,010	EUR €50,010	\$	\$ 66,293
HB9	October 31, 2013	7.00%	EUR €60,000	EUR €60,000		79,536
HB10	February 15, 2014	7.25%	EUR €100,005	EUR €100,005		132,567
HB11	January 15, 2015	7.25%	EUR €100,005	EUR €100,005		132,567
					<u>\$</u>	<u>\$ 410,963</u>

The Corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral. Due to the CCAA filing the Corporate non-asset backed bonds are in default and have therefore been reclassified as liabilities subject to compromise (Note 19) and falling due within one year. The bonds are issued in Euros and have been translated at period end exchange rates.

The interest is payable semi-annually on June 30 and December 31. The Company, however, does not anticipate that it will be required to make such payments during the pendency of the CCAA proceedings. The amount of interest accrued is also included in liabilities subject to compromise (Note 19).

d) Junior subordinated notes

The junior subordinated notes consist of EUR €25,000 (\$33,020) (December 31, 2010 - EUR €25,000 (\$33,141)) and USD \$20,000 (\$20,398) (December 31, 2010 - USD \$20,000 (\$20,004)) and require interest only payments until maturity in 2036. The Company, however, does not anticipate that it will be required to make such payments during the pendency of the CCAA proceedings. The amount of interest accrued is included in liabilities subject to compromise (Note 19). The notes carry a fixed interest rate until 2016 and variable thereafter. The Company has a redemption option effective in 2011 until maturity. The outstanding balances are translated at period end exchange rates. The notes have a financial covenant which require the Company to maintain a certain minimum rolling four-quarter interest coverage ratio, and a net worth covenant ratio, as calculated using the Company's consolidated financial statements prepared in accordance with IFRS. The interest coverage ratio and net worth covenant ratio were in default as at December 31, 2011. Due to the CCAA filing the notes have been classified under liabilities subject to compromise (Note 19).

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

16. Long term debt (cont.)

a) Homburg Capital Securities A

The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly. Due to the CCAA filing the HCSA are now in default and are required to be classified as current debt, which has resulted in an accelerated accretion of the HCSA principal amount which has been included in the consolidated statement of loss and the reversal of the capital component which has been adjusted through deficit. The HCSA have been reclassified as liabilities subject to compromise (Note 19) and falling due within one year. The interest is payable quarterly on March 31, June 30, September 30 and December 31. The Company, however, does not anticipate that it will be required to make such payments during the pendency of the CCAA proceedings. The amount of interest accrued is also included in liabilities subject to compromise (Note 19).

17. Income taxes

Income tax expense (recovery) differs from the amounts which would be obtained by applying the Canadian basic federal and provincial income tax rates and the rates for various foreign jurisdictions to income before income taxes, resulting from the following items:

	<u>2011</u>	<u>2010</u>
Income from continuing operations before income taxes	\$ <u>(364,800)</u>	\$ <u>49,520</u>
Combined Canadian federal and provincial statutory income tax rate	29.50 %	32.00 %
Income tax expense (recovery) at the above tax rate	\$ (107,616)	\$ 15,846
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains and market value changes	(11,015)	(3,805)
Provincial capital tax	(33)	332
Benefit of previously unrecognized deferred income tax asset	(219)	(2,845)
Reversal of previously recognized deferred income tax assets	6,713	21,986
Benefit of current year tax losses not recognized	103,894	29,179
Effect of rate change on temporary differences	1,056	3,008
Deferred income tax asset not previously recognized on sale of subsidiary		(34,292)
Effect of difference in statutory tax rates of subsidiaries	2,604	1,040
Other	(337)	748
Income tax expense	\$ <u>(4,953)</u>	\$ <u>31,197</u>
Comprised of:		
Current income tax	4,185	(11,597)
Deferred income tax	(9,138)	42,794
	\$ <u>(4,953)</u>	\$ <u>31,197</u>

The reduction of the Combined Canadian federal and provincial statutory income tax rate includes the federal rate reduction of 1.5% for 2011 as well as provincial tax rate reductions from a reallocation of income. Deferred income tax assets (liabilities) represent the temporary differences between the tax basis of assets and liabilities and the carrying amount of assets and liabilities for financial reporting purposes. Deferred tax assets and liabilities are netted in the consolidated balance sheet to the extent they relate to the same fiscal entity or tax group and taxation jurisdiction. The significant components are as follows:

	<u>2011</u>	<u>2010</u>	<u>Income Statement</u>	<u>OCI⁽¹⁾</u>	<u>Other⁽²⁾</u>
Deferred tax assets					
Loss carry forwards	\$ 22,553	\$ 17,442	\$ 4,891	\$ 220	\$
Deferred revenues and costs	63	6,071	(6,011)	3	—
Unrealized losses	12	22,402	(22,377)	(13)	—
	<u>22,628</u>	<u>45,915</u>	<u>(23,497)</u>	<u>210</u>	<u>—</u>
Deferred tax liabilities					
Homburg Capital Securities A		(11,342)	11,560	(218)	—
Unrealized gains	(7,210)	(15,266)	8,246	(190)	—
Investment	(9,037)	(15,735)	6,698	—	—
Investment properties	(27,583)	(35,311)	6,131	33	1,564
	<u>(43,830)</u>	<u>(77,654)</u>	<u>32,635</u>	<u>(375)</u>	<u>1,564</u>
Net deferred tax asset (liability)	\$ <u>(21,202)</u>	\$ <u>(31,739)</u>	\$ <u>9,138</u>	\$ <u>(165)</u>	\$ <u>1,564</u>

(1) Other Comprehensive Income (loss) (2) represents reclassification from assets held for sale (Note 18).

The net deferred tax liability is disclosed as follows:

	<u>2011</u>	<u>2010</u>
Deferred tax asset	\$ 950	\$ 8,316
Deferred tax liability	(22,152)	(40,055)
	\$ <u>(21,202)</u>	\$ <u>(31,739)</u>

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

17. Income taxes (cont.)

The Company has non-capital loss carryforwards of \$308,960. These expire as follows: \$29,036 in 2027; \$126,017 in 2028, \$37,497 in 2029, \$8,333 in 2030 and \$108,077 in 2031. The Company has gross capital loss carryforwards of \$341,308 with no expiry. A benefit relating to capital losses of \$64,465 has been recognized. The Company also has foreign tax credits of \$3,212 which expire between 2014 and 2020, the benefit of which has not been recognized.

The Company has approximately \$113,000 of taxable temporary differences associated with investments in subsidiaries for which no deferred taxes have been provided on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

18. Discontinued operations

During 2009, the Company outlined a strategy to spin off assets into four geographically based companies and a development company. On May 25, 2010 the Company completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to CANMARC for cash proceeds of \$114,511, Units in CANMARC at a fair value of \$143,139 plus a bargain purchase gain of \$69,380 resulting in a pre-tax loss of \$158,943. The following represents the income statement amounts associated with the sale plus certain other Canadian investment properties held for sale from December 31, 2010 and presented as discontinued.

	<u>2011</u>	<u>2010</u>
Income statement		
Property revenue	\$ 488	\$ 54,273
Sale of properties developed for resale	<u>6,207</u>	<u>3,500</u>
Total revenue	<u>6,695</u>	<u>57,773</u>
Property operating expenses	697	25,797
Cost of sale of properties developed for resale	<u>6,646</u>	<u>4,275</u>
	<u>7,343</u>	<u>30,072</u>
Gross income from operations	(648)	27,701
Other income	33	700
Interest expense		(13,000)
General and administrative	64	(3,526)
Fair value adjustment on investment properties	92	17,241
Loss on sale of assets		<u>(775)</u>
Net income (loss) from discontinued operations before income taxes	<u>(459)</u>	28,341
Deferred income tax expense	(459)	<u>7,477</u>
		20,864
Loss on disposal of discontinued operations		(158,943)
Deferred tax recovery		<u>(31,702)</u>
Net income (loss) from discontinued operations after tax	<u>\$ (459)</u>	<u>\$ (106,377)</u>

The assets held for sale include an investment property in Canada and 9 Limited Partnerships in the United States.

	<u>2011</u>	<u>2010</u>
Assets classified as held for sale		
Investment properties	\$ 113,147	\$ 139,434
Properties under development for resale	7,133	
Restricted cash	389	485
Cash	2,145	2,067
Deferred income tax asset		1,565
Receivable and others	<u>928</u>	<u>696</u>
	<u>\$ 123,742</u>	<u>\$ 144,247</u>
Liabilities associated with assets held for sale		
Long term debt	\$ 81,855	\$ 90,431
Long term debt subject to compromise (Note 19)	4,871	
Accounts payable	<u>1,210</u>	<u>1,558</u>
	<u>\$ 87,936</u>	<u>\$ 91,989</u>
	<u>2011</u>	<u>2010</u>
Statement of cash flows		
Operating activities	<u>\$ 971</u>	<u>\$ 3,744</u>
Investing activities	<u>\$ (399)</u>	<u>\$ 103,332</u>
Financing activities	<u>\$ (5,257)</u>	<u>\$ 5,389</u>

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

19. Liabilities subject to compromise

	<u>2011</u>	<u>2010</u>
Payables (Note 13)	\$ 84,921	\$
Non-construction demand loan (Note 13 (a))	5,569	
Security deposits (Note 13)	2,658	
Related party payable (Note 13)	5,348	
Construction financing (Note 15)	24,963	
Provisions (Note 14)	22,573	
Homburg Capital Securities A (Note 20)	35,378	
Long term debt (Note 16a)	14,725	
Mortgage bonds (Note 16b)	135,356	
Corporate non-asset backed bonds (Note 16c)	409,474	
Junior subordinated notes (Note 16d)	53,418	
	<u>\$ 794,383</u>	<u>\$</u>

As a result of the Creditor Protection Proceedings, pre-petition liabilities may be subject to compromise or may otherwise be affected by a court approved plan and generally, actions to enforce or otherwise effect payment or repayment of pre-petition liabilities of the Company arising prior to the Filing Date are stayed as of the Filing Date. Absent further order of the Court, no party may take any action to recover on pre-petition claims against the Company.

The interest expense related to the liabilities subject to compromise has been segregated on the income statement. This amount represents the outstanding interest that has been accrued but not yet paid with respect to the liabilities subject to compromise. Post-petition interest on liabilities subject to compromise is also included in liabilities subject to compromise; however, whether this interest will be payable or not is unknown at this time and is dependent on the ultimate court approved plan, if any.

20. Shareholders' equity

	<u>2011</u>	<u>2010</u>
Deficit	\$ (980,687)	\$ (649,316)
Accumulated other comprehensive income (a)	(10,222)	1,190
	(990,909)	(648,126)
Share capital (b)	700,403	701,034
Other paid in capital (d)		29,171
Contributed surplus (f)	20,157	19,597
	<u>\$ (270,349)</u>	<u>\$ 101,676</u>

a) Accumulated other comprehensive Income

	<u>2011</u>	<u>2010</u>
Net unrealized foreign currency translation gains (losses)	\$ (6,650)	\$ 4,597
Deferred tax expense	(3,572)	(3,407)
	<u>\$ (10,222)</u>	<u>\$ 1,190</u>

Accumulated other comprehensive income represents the unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States of America, Germany, The Netherlands, and the Baltic States. The change reflects the impact of currency movements during the year on these net assets offset by effective hedges in place.

The deferred income tax amounts recognized directly in shareholders' equity are the result of the foreign exchange translation effects of certain foreign operations with a functional currency other than the Canadian dollar. These foreign operations are taxed in the relevant foreign jurisdiction; accordingly, the foreign operation has deferred income tax assets and liabilities determined using the tax and accounting basis in the foreign jurisdiction, each measured in the functional currency of the foreign operation. These deferred tax assets and liabilities are converted to Canadian dollars with the resulting translation effects recorded directly in equity. An additional Canadian deferred tax liability arises given that the foreign operation is also subject to certain incremental tax in Canada. The tax basis of the assets and liabilities for Canadian taxation purposes is determined based on their historical Canadian dollar costs. As a result, incremental Canadian deferred taxes are measured based on the difference between such Canadian dollar tax bases and the balance sheet date accounting carrying value of the assets and liabilities after translation from the functional currency of the foreign operation to Canadian dollars. The accounting carrying value is therefore impacted by translation gains and losses at each balance sheet date which gives rise to changes in the temporary differences and incremental Canadian deferred tax balances related to these assets and liabilities. Since the related foreign currency translation gains and losses giving rise to these changes in temporary differences are recognized directly in shareholders' equity, the resulting incremental Canadian deferred tax benefit or expense effects are also recorded directly in shareholders' equity.

The following are rates of exchange in effect:

	<u>\$1.00 USD</u>	<u>€1.00 EUR</u>
December 31, 2011	\$ 1.01990	\$ 1.32080
December 31, 2010	\$ 1.00020	\$ 1.32560
Average rate for 2011	\$ 0.98933	\$ 1.37706
Average rate for 2010	\$ 1.03075	\$ 1.36843

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

20. Shareholders' equity (cont.)

b) Share capital

The particulars of the issued and outstanding shares of the Company are as follows:

	Class A Subordinate Voting Shares (000's)	Class B Multiple Voting Shares (000's)	Share Capital
Issued and outstanding at December 31, 2009			
Shares acquired under Normal Course Issuer Bid	16,619	3,149	\$ 691,785
Shares issued re DIM 2010	(46)	(36)	(2,240)
	<u>476</u>		<u>11,489</u>
Issued and outstanding at December 31, 2010			
Shares acquired under Normal Course Issuer Bid	17,049	3,113	701,034
	(14)	(8)	(631)
	<u>17,035</u>	<u>3,105</u>	<u>\$ 700,403</u>

Holders of Class A shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class B shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class A shares shall be entitled to one vote for each Class A share held. Holders of Class B shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class A shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class B shares shall be entitled to 25 votes for each Class B share held. Class A shares will be convertible into Class B shares in certain limited circumstances involving offers made to all, or substantially all, of the holders of Class B shares. Dividends are payable on Class A shares and Class B shares when declared by the Board of Directors. The Class A and Class B shares rank equally in dividend eligibility. Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution prior to issuance. Preferred shares are non-voting and rank in priority to the Class A and Class B shares with respect to dividends and distribution upon dissolution. No Preferred shares have been issued.

c) Normal Course Issuer Bid ("NCIB")

On August 23, 2010, the Company announced plans, under an approved NCIB, to acquire up to 1,017,201 Class A Subordinate Voting shares and 157,426 Class B Multiple Voting shares over a one year period ending August 24, 2011. The NCIB enabled the Company to acquire up to 1,000 Class A Shares and up to 1,000 Class B Shares on any given trading day. Any shares acquired by the Company under the NCIB were cancelled. During the year ended December 31, 2011, the Company acquired and cancelled 13,700 Class A Shares at an average cost of \$4.32 per share, and 8,000 Class B Shares at an average cost of \$5.14 per share. Class A and Class B shares acquired are being cancelled and removed from share capital at the average issue price at the time of acquisition. The discount on repurchases made to date of \$531 is credited to contributed surplus.

d) Other paid in capital

	2011	2010
Balance, beginning of period	29,171	34,435
Issue of shares re DIM 2010		(11,489)
Homburg Capital Securities A ("HCSA"):		
Equity component, net of tax	(29,171)	6,350
Deferred transaction costs		(125)
Balance, end of period	<u>\$ 29,171</u>	<u>\$ 29,171</u>

The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly. Due to the CCAA filing the HCSA are now in default and are required to be classified as current debt, which has resulted in an accelerated accretion of the HCSA principal amount which has been included in expenses and the reversal of the capital component which has been adjusted through deficit. The debt has been reclassified to liabilities subject to compromise (Note 19).

e) Stock options

	2011		2010	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	745	\$ 54.16	929	\$ 52.50
Expired	(2)	52.96	(184)	45.82
Outstanding at end of year	<u>743</u>	<u>\$ 54.16</u>	<u>745</u>	<u>\$ 54.16</u>

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

20. Shareholders' equity (cont.)

<u>Date of Grant</u>	<u>Expiration Date</u>	<u>Exercise Price</u>	<u>Class A Subordinate Voting Shares Under Option (000's)</u>	<u>Class A Subordinate Voting Shares Fully Vested (000's)</u>
July 16, 2007	July 15, 2012	\$56.80	641	641
June 27, 2008	June 26, 2013	\$37.60	102	99
			<u>743</u>	<u>740</u>

Under the Company's Stock Option Plan ("the Plan"), the Company may grant options to its directors and officers, and employees of the Company. New stock options may not be granted under the Plan on Class B Multiple Voting Shares of the Company. The maximum number of Class A Subordinate Voting Shares issuable pursuant to stock options outstanding under the Plan shall not exceed 10% of the aggregate number of issued and outstanding Class A Subordinate Voting Shares and Class B Multiple Voting Shares at the time of grant. Under the Plan, the exercise price of each option shall not be less than the closing market price of the Class A Subordinate Voting Shares on the TSX on the last trading day prior to the date of granting of the stock option and an option's maximum term is 10 years. Options are granted and vest at the discretion of the Board of Directors, and are fully exercisable once vested. On December 31, 2011, and December 31, 2010 there were no Class B Multiple Voting Share Options granted and there were 743 Class A Subordinate Voting Share Options granted and unexercised (740 fully vested and exercisable).

The fair value of each option grant is estimated on the date of grant using the Binomial or similar option pricing model. The fair value of each option granted was estimated using the exercise price and the following weighted average assumptions for all outstanding options: Expected volatility 30.0 - 40.0%; Risk free interest rate 3.31 - 4.60%; Expected dividend yield 5.6 - 13.0%; Expected life 3.5 - 5 Years. The compensation cost that has been expensed against income in 2011 is \$29 (December 31, 2010 - \$88).

f) Contributed surplus

Balance, beginning of year	\$ <u>19,597</u>	\$ 12,756
Acquisition and cancellation of Class A shares	531	1,821
Stock based compensation	29	88
Equity contribution (net of tax)		4,932
Balance, end of year	\$ <u>20,157</u>	\$ <u>19,597</u>

The Company's contributed surplus balance applies to:

Class A stock option expense	\$ 6,216	\$ 6,186
Equity contribution (net tax)	4,932	4,932
Discount on cancellation of Class A Shares	9,009	8,479
	\$ <u>20,157</u>	\$ <u>19,597</u>

Class A Subordinate Voting Shares and Class B Multiple Voting Shares traded on the "TSX" acquired by the Company under the Normal Course Issuer Bid ("NCIB") (Note 20(c)) are being cancelled and are removed from share capital at the average issue price at the time of acquisition. Any discount on acquisition is credited to contributed surplus.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

21. Earnings (loss) per share

Net earnings (loss) per share is calculated based on the weighted average number of shares outstanding as follows:

	<u>2011</u> <u>(000's)</u>	<u>2010</u> <u>(000's)</u>
Basic and Diluted		
Class A Subordinate Voting	17,045	17,036
Class B Multiple Voting	<u>3,111</u>	<u>3,141</u>
	<u><u>20,156</u></u>	<u><u>20,177</u></u>

Earnings available to Class A and Class B shareholders is calculated as:

Net loss	\$ (360,306)	\$ (88,054)
Homburg Capital Securities equity accretion (Note 20 (d))	<u>28,935</u>	<u>(3,133)</u>
	<u><u>\$ (331,371)</u></u>	<u><u>\$ (91,187)</u></u>

The Company incurred a loss during the years ended December 31, 2011 and 2010. As such, no potentially dilutive shares are included in the calculation of diluted per share amounts for these periods as the effect would be anti-dilutive.

22. Supplemental cash flow information

	<u>2011</u>	<u>2010</u>
Change in non-cash working capital and other:		
Receivables and other	\$ (2,739)	\$ (4,423)
Accounts payable and other liabilities	49,606	(22,694)
Proceeds exceeding earnings on development properties for resale	<u>12,231</u>	<u>6,314</u>
	<u><u>\$ 59,098</u></u>	<u><u>\$ (20,803)</u></u>
Interest paid	<u>\$ 78,245</u>	<u>\$ 122,290</u>
Interest capitalized	<u>\$ 5,222</u>	<u>\$ 16,953</u>
Capital and income taxes paid	<u><u>\$ 7,347</u></u>	<u><u>\$ 8,793</u></u>

Homburg Invest Inc.

(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(CAD \$ thousands except per share amounts)

23. Financial Instruments and risk management

Financial Instruments

The Company does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

<u>Classification</u>	<u>Subsequent Measurement</u>	<u>Carrying Value</u> <u>2011</u>	<u>Fair Value</u> <u>2011</u>	<u>Carrying Value</u> <u>2010</u>	<u>Fair Value</u> <u>2010</u>
Held for Trading					
Long term investments - others (a)	Fair value (L1)	\$ 22,021	\$ 22,021	\$ 1,643	\$ 1,643
Long term investments - HEEF B.V. (a)	Fair value (L3)	6,257	6,257	7,221	7,221
Cash and cash equivalents (b)	Fair value (L1)	20,523	20,523	13,617	13,617
Investments (b)	Fair value (L1)	120,222	120,222		
Derivative instrument liability (b)	Fair value (L2)	(26,850)	(26,850)	(21,847)	(21,847)
		<u>\$ 142,173</u>	<u>\$ 142,173</u>	<u>\$ 634</u>	<u>\$ 634</u>
Loans and Receivables					
Restricted cash (c)	Amortized cost	\$ 8,514	\$ 8,514	\$ 4,088	\$ 4,088
Receivables and other (c)	Amortized cost	31,472	31,472	36,025	36,025
		<u>\$ 39,986</u>	<u>\$ 39,986</u>	<u>\$ 40,113</u>	<u>\$ 40,113</u>
Other Financial Liabilities					
Accounts payable and other (c)	Amortized cost	\$ 147,131	● ₁	\$ 113,123	\$ 113,123
Mortgages (d)	Amortized cost	987,608	● ₁	1,034,108	1,013,013
Mortgage bonds (d)	Amortized cost	135,356	● ₁	135,846	138,013
Corporate non-asset backed bonds (d)	Amortized cost	409,474	● ₁	410,963	413,813
Junior subordinated notes (d)	Amortized cost	53,418	● ₁	53,145	75,418
Deferred financing charges (d)	Amortized cost	59	● ₁	(15,554)	
Construction financing (c)	Amortized cost	32,377	● ₁	40,231	40,231
		<u>\$ 1,765,423</u>	<u>●₁</u>	<u>\$ 1,771,862</u>	<u>\$ 1,793,611</u>

Note 1 - The risks associated with CCAA, as previously outlined in Notes 1 and 3 could impact the amounts presented as Fair Value at December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.

The Company uses the following hierarchy for determining the fair value of financial instruments: Level 1 ("L1") - quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2 ("L2") - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and Level 3 ("L3") - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data. There were no transfers in or out of financial instruments classified as L3 in 2010 or 2011.

- (a) Long term investments are classified as held for trading and carried at their fair values. The fair value of the Company's investment in HEEF B.V. is based on the proportionate share of the reported net asset value of the B.V.. HEEF B.V. prepares its financial statements in accordance with IFRS using the fair value model. As such, the net asset value from the financial statements of the B.V. is reflective of its fair value. Management has determined that a reasonably possible change in the assumptions used to determine the fair value of the Company's investment in HEEF B.V. would not result in a significant impact to the consolidated financial statements. The fair values of other long term investments are based on quoted market prices. A loss of \$1,538 resulting from the change in fair values of long term investments was recorded in the consolidated statement of loss during the year ended December 31, 2011 (2010 - gain of \$88) (Note 31).
- (b) Cash and cash equivalents, current investments and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$5,299 related to the derivatives during the year ended December 31, 2011 in the consolidated statement of loss (2010 - loss of \$677). A gain of \$34,028 resulting from the change in fair values of current investments was recorded in the consolidated statement of loss during the year ended December 31, 2011 (2010 - \$NIL).
- (c) The Company's short term financial instruments, comprising restricted cash, trade receivables, related party receivables, notes receivable, trade payables, related party payables, notes payable, security deposits, Homburg Capital Securities A liability, and construction financing are carried at amortized cost. The carrying value of short term financial assets, due to their short term nature, approximates their fair value. The risks associated with CCAA, as previously outlined in Notes 1 and 3 could impact the amounts presented as fair value of financial liabilities at December 31, 2011. The Company is therefore unable to determine the fair value of its liabilities as at the date of these statements.
- (d) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes, HCSA, and long term payables. The fair values of these financial instruments were based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, that reflected current market conditions for instruments with similar terms and risks. Such fair value estimates were not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. The risks associated with CCAA, as previously outlined in Notes 1 and 3 could impact the amounts presented as Fair Value of financial liabilities at December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

23. Financial Instruments and risk management (cont.)**Risk management**

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to minimize them, are discussed below.

a) Liquidity risk

Liquidity risk relates to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long term debts as they come due. As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. Liquidity risk also relates to the potential for early retirement of debt. Some of the Company's debt agreements have covenants including maximum loan to value ratio, net worth, interest coverage ratio, and/or reserve account balance requirements. Certain debts were in breach of these covenants and are classified as current. Due to the filing under the CCAA, certain other debts are in default and have also been reclassified as falling due within one year. The Company does not anticipate that it will be required to make payments on these latter debts during the pendency of the CCAA proceedings. See notes 1 and 3 for further discussion.

The Company is significantly levered with no book equity at December 31, 2011 (debt to equity - December 31, 2010 - 16.55:1) (long term debt, construction financing, long term payables and demand loans + shareholders' equity). For the year ended December 31, 2011, Homburg Invest had total interest expense coverage from continuing operations of 0.47:1 (December 31, 2010 - 0.84:1) (calculated as property revenue, less property operating expenses and general and administrative expenses + interest expense (excluding capitalized interest)).

The following table presents the Company's contractual obligations at December 31, 2011, the majority of which are pre-petition. It is not possible to predict the outcome of the CCAA proceedings and, as such, the discharge of liabilities are subject to significant uncertainty.

Contractual Obligation

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Later</u>
Head and ground leases	\$ 1,767	\$ 1,767	\$ 1,416	\$ 551	\$ 186	\$ 3,409
Mortgages: Normal principal installments	14,839	15,555	14,269	12,396	11,315	
Interest	29,989	27,246	23,997	22,437	20,003	
Principal maturities	98,714	47,065	33,185	1,616	48,529	411,335
Non-construction demand loans	5,569					
Construction financing	7,414					
Derivative financial instruments	26,850					
Other current payables	10,302					
Working capital deficit (i)	758,847					
Mortgage principal: covenant breach	278,790					
	<u>\$ 1,233,081</u>	<u>\$ 91,633</u>	<u>\$ 72,867</u>	<u>\$ 37,000</u>	<u>\$ 80,033</u>	<u>\$ 414,744</u>

- (i) The working capital deficit of \$(758,847) consists of cash \$20,523, trade receivables \$30,647, and current investments \$120,222 less payables \$123,653, income taxes payable \$5,491, related party payable of \$6,558, liabilities subject to compromise \$794,383 and notes payable \$154.

As a result of the CCAA proceedings, all actions to enforce or otherwise effect payment or repayment of liabilities arising prior to the Filing Date are stayed as of the Filing Date. Absent further order of the Court, no party may take any action to recover on pre-petition claims against the Company. It is not possible to predict the outcome of the CCAA proceedings, which renders the discharge of liabilities subject to significant uncertainty.

The Company is currently developing a restructuring plan under the supervision of the Court. Pre-petition liabilities will be dealt with in the context of the Plan.

The Company will continue to utilize the proceeds from the sale of CANMARC Units (Note 31c) as a source of liquidity during the CCAA proceedings. Proceeds from the sale of other assets may also provide a source of liquidity.

b) Interest rate risk

The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$679,531 in fixed rate debt and \$315,491 in floating rate debt (before deferred financing charges) including \$1,422 in demand and short term loans which are repayable in less than one year. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €119,324 (\$157,603) (December 31, 2010 - EUR €148,283 (\$196,564)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the period ended December 31, 2011, the impact on the consolidated statement of loss is a loss of \$5,299 (December 31, 2010 - loss of \$677). The Company discloses the weighted average interest rate of maturing long term debt in Note 16. With all other variables held constant, the Company has determined that a 1% change in interest rates would result in an annualized after tax change of \$2,405 in the Company's earnings as a result of the impact on floating rate borrowings.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

23. Financial Instruments and risk management (cont.)**c) Credit risk**

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$13,156 (December 31, 2010 - \$9,826) arises from the possibility that tenants may not fulfill their lease obligations. The Company mitigates this credit risk by performing credit checks on prospective tenants, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property revenue is earned from international, national and large anchor tenants. The Company's largest tenant represents 38.0% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75,000 (\$99,060) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company seeks replacement tenants. The Company's receivables are comprised primarily of current balances owing. The Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. The remaining significant receivables consist of taxes recoverable from various government agencies and revenue from the sale of development properties. The amounts due from government agencies represent current recoverable amounts and the revenue from the sale of development properties is supported by security letters of credit issued by the purchaser.

d) Currency risk

Currency risk arises from assets and liabilities denominated in US dollars or Euros. The Company had established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. During the 4th quarter the internal hedge became ineffective and the related foreign currency gain is now recorded in income (loss). At December 31, 2010 - €234,340 (\$310,641) of the Company's net investment was effectively hedged with an equal amount of Euro-denominated debt. Currency risk for other amounts denominated in US dollars and Euros is mitigated by US dollar and Euro revenue and expense streams related to property rentals. The operating results of the Company's foreign operations are translated to Canadian dollars for financial statement reporting purposes. Changes to the exchange rates during the reporting period impact those reported results. A 10% variation in exchange rates is considered to represent a reasonably possible change to existing rates.

With all other variables held constant, the Company has determined that a 10% change:

- in the Euro exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$8,311 and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9,180 after income taxes; and
- in the US dollar exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$2,698 and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1,418 after income taxes.

The Balance Sheets of the Company's foreign self-sustaining operations are translated to Canadian dollars for financial reporting purposes using the period end exchange rate. The change in exchange rates on the net investment position of these self-sustaining foreign operations is reflected in the other comprehensive income of the Company during the period. As noted above, the Company has established an internal hedging relationship between Euro-denominated debt and net investments in self-sustaining operations. To the extent that the hedges are effective, the foreign currency gain or loss on the hedging amounts of Euro-denominated debt is reflected in other comprehensive income during the period.

e) Concentration risk

Certain of the Company's larger investment properties are leased to single tenants, and the recovery of the carried value of these investments is dependent upon the continuation of rental income on these properties from existing or new tenants. The Company's largest single tenant represented approximately 38.0% (December 31, 2010 - 36.8%) of property revenue for the year. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The property leased to this tenant has a fair market value of \$534,132 at December 31, 2011 (December 31, 2010 - \$592,540).

f) Environmental risk

As an owner and manager of real estate properties, the Company is subject to various United States, European and Canadian federal, provincial, state and municipal laws relating to environmental matters. These laws could hold the Company liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell its real estate or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against the Company. The Company is not aware of any material non compliance with environmental laws at any of its properties. The Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. The Company has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on its business, financial condition or results of operation.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

23. Financial Instruments and risk management (cont.)**g) Risks related to Creditor Protection and Restructuring**

On September 9, 2011, the Company was granted an Initial Order from the Court granting the Applicants creditor protection under the CCAA. Pursuant to Initial Order the Applicants are provided with authority to, among other things, file with the Court and submit to their creditors a plan of compromise or arrangement under CCAA and operate an orderly restructuring of their business and financial affairs, in accordance with the terms of the Initial Order. Furthermore, Samson Bélair/Deloitte Touche Inc. was appointed by the Court to monitor the business and financial affairs of the Applicants and, in connection with such role, the Initial Order imposes a number of duties and functions on the Monitor, including, but not limited to, assisting the Applicants in connection with their restructuring and reporting to the Court on the state of the business and financial affairs of the Applicants and on developments in the CCAA Proceedings, as the Monitor considers appropriate.

In light of the CCAA Proceedings, it is unlikely that HII's existing Class A Shares and Class B Shares will have any material value in, and following the approval of, a restructuring plan of arrangement, and there is a significant risk such shares could be cancelled. There is also a risk that if HII fails to successfully implement a plan of arrangement within the time granted by the Court, substantially all of its debt obligations will become due and payable immediately, or subject to immediate acceleration, which would in all likelihood lead to the liquidation of the Applicants' assets.

24. Capital management

The Company's objectives in managing capital are: increasing equity through retained earnings and equity financing, sufficient to support debt borrowing to fund growth of the asset base, while maintaining an IFRS debt-to-equity ratio of not more than 4.0:1; funding growth through a balance of debt and equity sufficient to maintain an IFRS interest expense coverage ratio at an annual rate of at least 1.25:1; and providing shareholders with a return on total shareholders' equity of greater than 15% annually, and paying total annual dividends at a sustainable level.

Interest expense coverage is defined as property revenue, less property operating expenses and general and administrative expenses, divided by interest expense. The Company excludes revenues and costs of sale of properties under development for resale as interest on borrowings to finance these activities is typically capitalized. In the management of its capital, the Company includes all short term bank indebtedness, long term debt, and shareholders' equity. The Company has external covenants imposed by specific borrowing facilities. These covenants primarily relate to maintenance of minimum interest coverage ratios, maximum loan to value ratios and reserve account balance requirements. The results of the Company's management objectives for the period were as follows.

	<u>2011</u>	<u>2010</u>
Debt-to-equity ratio	-	16.55 : 1
Interest expense coverage ratio	0.47 : 1	0.84 : 1
	<u>2011</u>	<u>2010</u>
Debt is calculated as follows:		
Long term debt including current portion	\$ 987,667	\$ 1,618,508
Construction financing	7,414	40,231
Homburg Capital Securities A	35,378	1,000
Long term payables		10,340
MoTo Objekt Campeon GmbH & Co KG	10,302	
Liabilities to be compromised - Corporate non-asset backed bonds	409,474	
Liabilities to be compromised - Mortgage bonds	135,356	
Liabilities to be compromised - Long term debt	14,725	
Liabilities to be compromised - Junior subordinated notes	53,418	
Non-construction demand loans	<u>5,569</u>	<u>12,921</u>
	<u>\$ 1,659,303</u>	<u>\$ 1,683,000</u>
Shareholders' equity	<u>\$ (270,349)</u>	<u>\$ 101,676</u>
Interest expense	<u>\$ 134,799</u>	<u>\$ 110,648</u>
Property revenue	\$ 127,177	\$ 133,004
Property operating expenses	(25,309)	(25,628)
General and administrative	<u>(37,879)</u>	<u>(14,820)</u>
	<u>\$ 63,989</u>	<u>\$ 92,556</u>

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

25. Related party transactions

The Company's direct parent is Homburg Finance A.G., which is controlled by the former Chairman and Chief Executive Officer. However, pursuant to a voting power of attorney agreement made as of September 8, 2011, each of Mr. Richard Homburg and Homburg Finance A.G. appointed Stichting Homburg Bonds and Stichting Homburg Capital Securities as attorneys (the "Trustees") to vote the Class A Shares and Class B Shares held directly or indirectly by Mr. Richard Homburg or Homburg Finance A.G., as applicable, on any resolution presented to the shareholders of HII to be voted upon at a meeting of shareholders of HII which is duly called and constituted in accordance with the *Business Corporations Act* (Alberta) and the by-laws of HII, in such a manner as the Trustees may deem appropriate.

On March 21, 2012 the Trustees transferred the voting rights of the HII shares held by Mr. Homburg and Homburg Finance AG to a newly formed independent Stichting CanTrust. This effectively separates the Trustees representation of the bond holders, from the voting control of HII.

a) The Company has entered into agreements with companies commonly controlled by the former Chairman and Chief Executive Officer. A summary of the various transactions between related parties is as follows:

	<u>2011</u>	<u>2010</u>
Rental revenue earned	\$ <u>(45)</u>	\$ <u>(482)</u>
Interest income	\$ <u>(1,427)</u>	\$ <u>(574)</u>
Management agreement termination fee (l)	\$ <u> </u>	\$ <u>21,600</u>
Asset and construction management fees (q)	\$ <u>6,474</u>	\$ <u>8,440</u>
Property management fees incurred (q)	\$ <u>2,252</u>	\$ <u>4,784</u>
Insurance costs incurred	\$ <u>89</u>	\$ <u>514</u>
Service fees incurred	\$ <u>4,464</u>	\$ <u>4,915</u>
Property acquisition/disposal fees incurred (q)	\$ <u>1,093</u>	\$ <u>1,302</u>
Mortgage bond guarantee fees incurred (h)	\$ <u> </u>	\$ <u>17,134</u>
Bond and other debt issue costs incurred	\$ <u> </u>	\$ <u>209</u>
Interest costs incurred (l)	\$ <u>140</u>	\$ <u>276</u>

- b) Included in trade payables is \$4,083 (accounts payable - December 31, 2010 - \$405) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- c) Included in restricted cash and accounts payable is a deposit on two condominium units of \$360 (December 31, 2010 - \$355) from the former Chairman and Chief Executive Officer. The unit will be purchased at market prices.
- d) The Company had approved a resolution authorizing the property manager, a company commonly controlled by the former Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the Company. This agreement was terminated on July 29, 2011.
- e) Professional services of approximately \$258 (December 31, 2010 - \$305) were purchased from a corporation of which one of the Company's former directors is affiliated.
- f) Included in accounts payable and other liabilities is \$6,558 (December 31, 2010 - \$21,892) with companies commonly controlled by the former Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
- g) Included in accounts receivable is \$1,050 (December 31, 2010 - \$NIL) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- h) In 2010 the Company ended a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the former Chairman and Chief Executive Officer, wherein it was protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum was 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. During the previous year this contract was cancelled, thus eliminating the Company's liability for \$13,383 representing an approximate discount of 30% from the book value of the liability. This discount of \$4,932 was credited to contributed surplus.
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Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

25. Related party transactions (cont.)

- i) Included in non-construction demand loans is a promissory note payable in the amount of EUR €4,217 (\$5,570) (December 31, 2010 - EUR €6,291 (\$8,339)). This amount relates to the Company's investment in Homburg Eastern European Fund B.V. The note bears interest at 6.0% per annum and has no specific repayment terms (Note 31).
- j) The Company has entered into head leases ("Head Leases") with CANMARC. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$1,581. The head leases commenced on May 25, 2010 and June 30, 2011 and have five and three year terms subject to certain rights of termination upon third party leasing of such space. The Company has \$1,477 included in property operating expenses for the period ended December 31, 2011.

The Company has pledged and hypothecated in favour of CANMARC, Units having an aggregate value of approximately \$14.4 million as collateral for its obligations under the Head Leases (the "Head Lease Pledge"), and Units having an aggregate value of approximately \$6.6 million as collateral for certain of its obligations in connection with remediation costs, if any, on certain income producing properties (the "Remediation Cost Pledge"). The number of Units pledged under the Head Lease Pledge reduces annually by 1/5 of the number of Units pledged. The number of Units pledged under the Remediation Cost Pledge will be reduced from time to time upon payment by the Company to CANMARC of any portion of the remediation costs, if any, it being understood that for each \$10 of the total remediation cost paid to CANMARC, the number of Units pledged under the Remediation Cost Pledge will be reduced by one Unit. Upon payment of the full Remediation Cost, the Company will be fully discharged of its obligations under the Remediation Cost Pledge and any remaining Units will be released from the Remediation Cost Pledge. Subsequent to year end the Company sold its units in CANMARC, CANMARC currently holds the cash in trust in the amount of \$21,330, representing the net cash proceeds of the 1.3 million of Units sold related to the Headlease Pledge and Remediation Cost Pledge.

- k) The Company has entered into a ground lease with CANMARC for a term of 25 years, with an option to renew for up to 3 additional periods of 25 years each. The annual minimum rent payable for the ground lease is \$186. The Company has \$186 included in property operating expenses for the period ended December 31, 2011.
- l) As part of CANMARC launch by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized within CANMARC. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of \$21,600 provided for under the agreement, effective February 25, 2010, and this amount was included in the loss from discontinued operations at December 31, 2010.
- m) During the prior year the Company sold its 50% interest in Homburg SNS Property Finance Limited Partnership at book value to a company commonly controlled by the former Chairman and Chief Executive Officer for \$7,409 in notes receivable. As a result of the valuations performed in relation to the settlement agreement described in note 25 (p) this Note was written off at December 31, 2011.
- n) On June 27, 2011, CANMARC acquired from CP Developments Ltd., a wholly owned subsidiary of the Company, the three existing office buildings that currently comprise the Centron Park Complex in Calgary's suburban south district, and an interest in lands by way of a purchase option providing CANMARC with the right to acquire the four remaining buildings of the complex, as developed. The gross purchase price for the existing buildings was \$39.7 million, excluding closing and transaction costs. CANMARC has a right of first refusal to purchase the remaining properties under development.

o) Compensation of directors and senior management

The Company had certain management agreements with a related party and did not directly employ any key management employees throughout 2010 and up to July 29, 2011. The management agreement was terminated on July 29, 2011 and the Company internalized all employees. Compensation for directors and senior management including the CEO and CFO was as follows from July 29, 2011:

	<u>2011</u>	<u>2010</u>
Short term employee benefits	\$ <u>2,914</u>	\$ <u> </u>

This amount is recognised as an expense during the reporting period related to senior management and directors.

- p) During the 4th quarter the Company entered into an agreement with Homburg Canada Inc. that was closed in the first quarter of 2012 (Note 31b). This agreement provides that the Company will acquire from HCI the real estate management business activities carried on by HCI with respect to the properties owned by the Company in Europe (other than those located in the Baltics), and certain related assets. The Agreement also settles the claim for damages received from HCI totalling approximately \$27.3 million further to the termination by the Company of the master property and asset management agreement and certain outstanding intercompany payables owing to HCI. The Agreement also provides HII with options more fully described in Note 31b. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by a cash payment of \$10.5 million and other consideration. The Company has accrued and expensed \$7.5 million at December 31, 2011 in respect of the termination claim from HCI.
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Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

25. Related party transactions (cont.)q) **Property and Asset Management Service Fees**

The Company had entered into a Property and Asset Management Agreement, initially set to expire on June 30, 2016, with a company commonly controlled by the former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:

Property Management Service Fees

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) were in place, the Manager did not receive any property management fees;
- (ii) For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases were not in place, fees were a percentage of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties;
- (iii) For investment properties situated in Europe where Single Tenant Triple Net Leases were not in place, fees were a percentage of annual rents as generated by the Properties;
- (iv) Construction supervision fees equal to 10% of the gross value (net of taxes) of the cost of construction or related construction contracts. Gross costs included the total hard and soft costs (including interest), but excluded land cost. The Manager was responsible for, including but not limited to, project management and all third party costs for construction management and other related costs; and
- (v) Leasing fees equal to 10% of the first year net revenue for leases with a term of less than two years, 15% of the first year net revenue for leases of three to four years and 20% of the first year net revenue for leases of five years or longer. The Manager was to pay out of the applicable Owner's funds, mortgage payments, taxes, assessments, premiums on insurance and all other payments related to the operation of the Properties.

Asset Management Service Fees

- (vi) For investment properties situated in Canada or the United States, annual fees of 0.30% of the total asset base, calculated on the quarterly basis for properties where Single Tenant Triple Net Leases (as such term is defined above) were in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where Single Tenant Triple Net Leases (as such term is defined above) were not in place;
- (vii) For investment properties situated in Europe, annual fees of 0.20% of the total asset base, calculated on a quarterly basis;
- (viii) Share issue fees of 5% of the total gross proceeds raised in share issues of HII, provided that the Manager assumed all costs related to such share issues (including selling commissions payable to intermediaries, legal fees, marketing expenses, travel expenses and additional out-of-pocket expenses). No fees were payable by HII to the Manager with respect to shares issued to a vendor of a property acquired by HII or private placement to related parties; and
- (ix) Acquisition and disposition fees of 2.5% of the total acquisition or disposition price of the relevant property, provided however that, (i) in the context of a series of transactions forming part of the same transaction, the 2.5% fee was only payable once based on the total acquisition or disposition price, as the case may have been; and (ii) the Manager was not entitled to be reimbursed for any due diligence or execution costs relating to any acquisitions or dispositions, whether successful or unsuccessful, including legal, accounting, financial advisory and brokerage services as well as travel expenses and the cost of obtaining structural, environmental, title, and appraisal reports.

On July 29, 2011 the Company terminated the Property and Asset Management Agreement described above and subsequently entered into a Property and Asset Management Agreement, with companies commonly controlled by the former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis in the Netherlands, Germany and the Baltics. These contracts automatically renew on a three month basis and can be cancelled with written notice within 30-45 days. Subsequent to year end, upon successful closing of the agreement between the Company and Homburg Canada Inc., the property management office in the Netherlands that services the Netherlands and Germany properties was purchased by the Company and internalized.

Property Management Service Fees

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) were in place, the Manager did not receive any property management fees;
- (ii) For investment properties situated in Europe, deemed to be producing a positive cash flow and where Single Tenant Triple Net Leases were not in place, fees were a percentage of annual rents as generated by the Properties;
- (iii) For investment properties situated in Europe, not deemed to be producing a positive cash flow and where Single Tenant Triple Net Leases were not in place, fees were a fixed monthly amount;

Asset Management Service Fees

- (iv) For investment properties situated in Europe, deemed to be producing a positive cash flow, annual fees of 0.20% of the total fair market value, calculated on a quarterly basis;

Related party transactions are recorded at their exchange amounts, being the amounts agreed to by the related parties.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)**

26. Commitments

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Later</u>
Future minimum lease payments:						
Headlease commitment (Note 25j,k)	\$ <u>1,767</u>	\$ <u>1,767</u>	\$ <u>1,416</u>	\$ <u>551</u>	\$ <u>186</u>	\$ <u>3,409</u>

27. Contingent liabilities

- a) On September 9, 2011 the Company obtained an order from the Canadian Court for creditor protection under CCAA. As a result, all actions to enforce or otherwise effect payment or repayment of liabilities arising prior to the Filing Date, and substantially all pending claims and litigation against the Company, are stayed as of the Filing Date. This order grants a \$2.0 million indemnity charge to the Officers and Directors of the Company, and a \$2.0 million administration charge for legal counsel of the Company and the Monitor. Absent further order of the Court and subject to potential time limits, no party may take any action to recover on pre-petition claims against the Company.
- b) One subsidiary has received a transfer tax assessment and specific other subsidiaries of the Company have been advised of pending potential transfer tax assessments. The tax assessments, both issued and potentially to be issued, would impose transfer tax on the acquisition of certain properties by the subsidiaries. The potential liability would be EUR €10,831 (\$14,297) (December 31, 2010 - EUR €10,831 (\$14,357)) and would result in an expense should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 (\$2,377) (December 31, 2010 - EUR €1,800 (\$2,386)); an additional EUR €7,831 (\$10,343) (December 31, 2010 - EUR €7,831 (\$10,381)) was indicated for potential assessment, and to date no additional assessments have been received. The tax authorities have to impose these additional tax assessments before January 1, 2012. The remaining amount of EUR €1,200 (\$1,585) (December 31, 2010 - EUR €1,200 (\$1,590)) relates to an acquisition in 2008, and is similar in structure to the acquisition that has already been assessed. The Company has reviewed this matter, has received legal advice, and believes it is not required to pay the transfer tax on any of these acquisitions. Accordingly, the Company has not recorded any of the proposed transfer tax in its consolidated financial statements.
- c) Certain funds received from a controlled foreign affiliate were structured as a loan. The underlying resolutions in support of these amounts may have created an unintended potential withholding tax liability. The Company obtained legal advice and has executed agreements to clarify the original intention of the parties to the transaction that the funds advanced were a loan to the parent. Such executed agreements would mitigate the unintended tax consequences.
- d) The Monitor will be applying to the court to initiate a claims process whereby parties may assert claims against the Applicants. As part of the claims process, the Monitor and ultimately the court will rule on the legitimacy of any such claims. There is a potential for additional valid claims to be levied against the Company. However, the Company is not currently aware of any additional material possible claims.
- e) Subsequent to year end the Company has agreed to surrender its investment in HEEF in the amount of \$6,257 (EUR €4,737), to satisfy the remaining amount due by the Company to HEEF of \$5,569 (EUR €4,216). Should the amount recovered by the sale of the units be insufficient to recover the amount owed by the Company, there may be an additional claim that would be subject to the CCAA proceedings.
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28. Rental income under operating leases

The Company's operations include leasing commercial real estate. The following is a schedule of minimum future rental income on non-cancelable operating leases having initial terms in excess of one year:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Later</u>
Future minimum rental income:	\$ <u>105,229</u>	\$ <u>92,439</u>	\$ <u>88,918</u>	\$ <u>78,955</u>	\$ <u>77,519</u>	\$ <u>74,074</u>

29. Segmented Information

The Company is predominately organized and managed on a geographical basis. Operating performance is evaluated by the Company's Chief Operating Decision Maker ("CODM") primarily based on the net operating income of completed investment properties, which is defined as property revenues less property operating expenses, aggregated into operating segments with similar economic characteristics represented by the following geographical areas - North America, Germany, The Netherlands and the Baltic States. Centrally managed expenses such as interest, amortization, and general and administrative costs are not included or allocated to operating segment results.

The CODM also regularly reviews the carrying value of investment properties, on a property by property basis and also on an aggregated basis by geographical operating segment. Operating segment liabilities regularly reviewed by the CODM on an aggregated basis by geographical operating segment include mortgages and mortgage bonds payable to the extent these can be allocated to specific geographical operating segments.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010****(CAD \$ thousands except per share amounts)****29. Segmented Information (cont.)**

	<u>Germany</u>	<u>Netherlands</u>	<u>Baltic States</u>	<u>North America</u>	<u>Total</u>
Year ended December 31, 2011					
Property revenue	\$ 60,789	\$ 30,249	\$ 18,692	\$ 17,447	\$ 127,177
Operating expenses	<u>1,658</u>	<u>7,298</u>	<u>4,868</u>	<u>11,485</u>	<u>25,309</u>
	<u>\$ 59,131</u>	<u>\$ 22,951</u>	<u>\$ 13,824</u>	<u>\$ 5,962</u>	<u>\$ 101,868</u>
Year ended December 31, 2010					
Property revenue	\$ 63,217	\$ 33,204	\$ 18,857	\$ 17,726	\$ 133,004
Operating expenses	<u>4,626</u>	<u>3,888</u>	<u>5,880</u>	<u>11,234</u>	<u>25,628</u>
	<u>\$ 58,591</u>	<u>\$ 29,316</u>	<u>\$ 12,977</u>	<u>\$ 6,492</u>	<u>\$ 107,376</u>
December 31, 2011					
Investment properties	\$ 668,171	\$ 320,938	\$ 204,740	\$ 30,442	\$ 1,224,291
Mortgages payable	\$ 476,252	\$ 339,956	\$ 157,604	\$ 13,796	\$ 987,608
Mortgage bonds payable	\$ 33,860	\$ 33,818		\$ 67,678	\$ 135,356
December 31, 2010					
Investment properties	\$ 748,715	\$ 422,916	\$ 208,258	\$ 21,838	\$ 1,401,727
Mortgages payable	\$ 492,342	\$ 350,911	\$ 159,939	\$ 30,916	\$ 1,034,108
Mortgage bonds payable	\$ 31,082	\$ 36,842		\$ 67,922	\$ 135,846

In addition to the above, the North American segment derived revenue from the sale of properties developed for resale of \$12,789 (December 31, 2010 - \$15,061), less costs of development of \$12,649 (December 31, 2010 - \$21,369), which resulted in a gain on sale of properties of \$140 (December 31, 2010 - loss of \$6,308). At December 31, 2011, the Germany segment included one (December 31, 2010 - one) tenant that individually represented 38.0% (December 31, 2010 - 36.8%) of the Company's consolidated property revenue for the period. Property operating expenses include \$2,206 relating to vacant properties (December 31, 2010 - \$544).

In addition to the Company's geographical operating segments, the following information is also provided to the Board of Directors on an aggregated basis by property classification (Retail, Industrial, Office and Residential).

	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
Year ended December 31, 2011					
Property revenue	\$ 18,876	\$ 14,304	\$ 93,938	\$ 59	\$ 127,177
Operating expenses	<u>5,625</u>	<u>3,152</u>	<u>15,485</u>	<u>1,047</u>	<u>25,309</u>
	<u>\$ 13,251</u>	<u>\$ 11,152</u>	<u>\$ 78,453</u>	<u>\$ (988)</u>	<u>\$ 101,868</u>
Year ended December 31, 2010					
Property revenue	\$ 18,730	\$ 16,985	\$ 97,287	\$ 2	\$ 133,004
Operating expenses	<u>5,272</u>	<u>6,079</u>	<u>13,160</u>	<u>1,117</u>	<u>25,628</u>
	<u>\$ 13,458</u>	<u>\$ 10,906</u>	<u>\$ 84,127</u>	<u>\$ (1,115)</u>	<u>\$ 107,376</u>
December 31, 2011					
Investment properties	\$ 102,314	\$ 160,786	\$ 961,191		\$ 1,224,291
Mortgages payable	\$ 63,076	\$ 154,650	\$ 761,313	\$ 8,569	\$ 987,608
Mortgage bonds payable	\$ 7,431	\$ 17,029	\$ 43,218		\$ 67,678
December 31, 2010					
Investment properties	\$ 106,590	\$ 204,230	\$ 1,090,907		\$ 1,401,727
Mortgages payable	\$ 16,055	\$ 159,580	\$ 785,164	\$ 73,309	\$ 1,034,108
Mortgage bonds payable	\$ 4,557	\$ 21,477	\$ 41,890		\$ 67,924

At December 31, 2011, mortgage bonds payable totaled \$135,356. Of this amount \$67,678 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$67,678 is allocated to specific property classification segments above. At December 31, 2010, mortgage bonds payable totaled \$135,846. Of this amount \$67,922 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$67,924 is allocated to specific property classification segments above.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

30. Interests In joint ventures

The Company owned a direct or indirect partial interest in the following joint venture L.P.'s which were active at December 31, 2011:

<u>Joint venture</u>	<u>Location</u>	<u>Property type</u>	<u>% Owned</u>
Homco Realty Fund (49) L.P.	Canada	Residential	5%
An 80% interest in the Cedar joint venture, which holds a 100% interest in nine separate L.P.'s	USA	Commercial	80.00%

Homburg LP Management Inc., a company directly and indirectly controlled by the former Chairman and CEO, acts as the general partner in all partially owned limited partnerships, except the Cedar joint venture, in which the general partner is related to the minority limited partner. These consolidated financial statements reflect the aggregate amount of the Company's share of the assets, liabilities, revenue and expenses of the above joint ventures in accordance with the principles of proportionate consolidation, as follows:

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 2,534	\$ 2,556
Receivables and other	721	1,431
Investment properties, and investment properties under development	<u>113,147</u>	<u>125,924</u>
	<u>\$ 116,402</u>	<u>\$ 129,911</u>
Liabilities		
Accounts payable and other liabilities	\$ 509	\$ 963
Security deposits and prepaid rent	625	759
Mortgages payable	<u>81,887</u>	<u>82,300</u>
	<u>\$ 83,021</u>	<u>\$ 84,022</u>
Revenue		
Property revenue	\$ 12,406	\$ 12,900
Sale of properties developed for resale		21
Net adjustment to fair value of investment properties	<u>(15,333)</u>	<u>9,495</u>
	<u>\$ (2,927)</u>	<u>\$ 22,416</u>
Expenses		
Property operating expenses	\$ 3,176	\$ 3,190
Cost of sale of properties developed for resale		16
General and administrative expenses	85	154
Mortgage interest	<u>4,526</u>	<u>4,778</u>
	<u>\$ 7,787</u>	<u>\$ 8,138</u>

The assets and liabilities of the Cedar Joint Venture are included in assets and liabilities classified as held for sale.

31. Subsequent events

a) On March 16, 2012 the Court extended the CCAA stay period to May 31, 2012.

b) Subsequent to year end, the Company closed the previously announced Purchase Agreement between Homburg Invest Inc., and Homburg Canada Inc. ("HCI"). The agreement provides that the Company will acquire from HCI the Purchased Management Business and all related assets owned or used or held by HCI, or its affiliates, which relate to the Purchased Management Business. The closing also settles the claim for damages received from HCI totaling approximately \$27.3 million further to the termination by the Company of the master property and asset management agreement and certain outstanding intercompany payables owing to HCI. The Purchase Agreement also provides the granting to the Company of options (the "Options") to obtain, directly or indirectly, title to the shares of Homburg L.P. Management Inc. ("HLP") being the general partner of certain of the Company's limited partnership investments and the option to require the resignation of HLP as general partner of any or all Partnerships, which options shall be exercised in a time and manner subject to the approval of the Court and the Monitor. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by a cash payment of \$10.5 million and other consideration. The initial installment of \$3.5 million was paid on closing which occurred on February 17, 2012 and the second installment of \$3.5 million was paid on April 17, 2012.

On April 11, 2012, the CCAA Court granted approval for the Company to take the necessary steps to implement the execution of the previously discussed options pertaining to all assets other those in the Baltics. The Company expects to complete this First Option Exercise in the second quarter of the year.

c) Subsequent to year end, the Company has disposed of the 8.8 million units of CANMARC REIT it held, representing a 16.1% interest. The net proceeds to the Company were \$144.4 million. \$21.1 million of these funds were placed in trust to replace the 1.3 million units of CANMARC REIT previously held to secure the headlease and remediation obligations of the Company, \$107.3 million is in trust per CCAA Court Order, and a total of \$16.0 million has been released to the Company per approved CCAA Court Order in two separate tranches of \$10.0 and \$6.0 million respectively.

Homburg Invest Inc.**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Consolidated Financial Statements****December 31, 2011 and 2010**(CAD \$ thousands except per share amounts)

31. Subsequent events (cont.)

d) Subsequent to year end the Company signed a new financing agreement with a lender for approximately EUR €37.5 million of debt which matured in February 2012. The new financing agreement requires the Company to acquire the remaining 6.63% in its largest asset, the Infineon Campus in Munich, Germany by May 31, 2012. In addition, the agreement requires the entity holding this asset to use any of its cash flow surplus to reimburse the balance of the outstanding loan. As a result, this cash flow surplus will not be available to the Company.

e) Subsequent to year end, the option by which the Company will acquire the remaining 6.63% of its largest asset, the Infineon Campus in Munich, Germany was extended to May 31, 2012. It is the Company's intent, subject to Monitor and if necessary CCAA court approval, to acquire the remaining interest. The necessary financing has been arranged to fund the required EUR €7.8 million.

f) Subsequent to year end the Company sold 18 of the Inverness condominium units for \$3,195. As well, the Court approved a bulk sale deal for the remaining 23 Inverness condominium units for \$3,840. The closing is scheduled to occur during Q2 of 2012. The proceeds from the sale will be utilized to reduce secured debt.

g) Subsequent to year end the Company has agreed to surrender its investment in HEEF in the amount of \$6,257 (EUR €4,737), to satisfy the remaining amount due by the Company to HEEF of \$5,569 (EUR €4,216). Should the amount recovered by the sale of the units be insufficient to recover the amount owed by the Company, there may be an additional claim that would be subject to the CCAA proceedings.

32. Indemnities

The Company has agreed to indemnify its directors and officers in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

Under the initial CCAA order the court has approved a charge and security of the Company's property to the extent of the aggregate amount of \$2.0 million as security for the indemnity.

33. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period. The income statement has been restated to reflect the reclassification of discontinued operations.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Homburg Invest Inc. ("Homburg Invest", "HII" or the "Company") audited consolidated financial statements and accompanying notes for the year ended December 31, 2011 prepared under International Financial Reporting Standards ("IFRS").

DATE OF MD&A
April 30, 2012

FORWARD LOOKING ADVISORY

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2011 objectives, our strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

This discussion contains forward-looking statements concerning capital expenditures, cost reductions and operating and financial improvements. Such statements are based on the Company's management's assumptions and beliefs in light of the information currently available to them. These statements are subject to inherent uncertainties and risks, including, but not limited to: general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; the availability and terms of financing; risks and uncertainties relating to the Creditor Protection Proceedings (hereinafter defined), specifically risks associated with HII's ability to continue as a going concern; stabilize the business to develop a comprehensive restructuring plan in an effective and timely manner; resolve ongoing issues with creditors and other third parties whose interests may differ from the Company's; obtain court orders or approvals with respect to motions filed from time to time, including obtaining alternative or replacement financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. HII, except as required by applicable law, undertakes no obligation to publicly update or revise any forward looking statements.

OVERVIEW

Creditor Protection Proceedings

On September 9, 2011 (the "Filing Date") HII and certain of its subsidiaries (the "Applicants") obtained an order (the "Initial Order") from the Superior Court of Québec (Commercial Division) (the "Court") granting creditor protection under the *Companies' Creditors Arrangement Act* (the "CCAA") (the "CCAA proceedings" or "Creditor Protection Proceedings"). Samson Bélair/Deloitte & Touche Inc. was appointed by the Court as Monitor in the CCAA Proceedings (the "Monitor"). Pursuant to the CCAA proceedings (i) the Applicants are provided with the authority to, among other things, continue operating the Applicants' business (subject to Monitor and/or Court approval for certain activities), file with the Court and submit to creditors a plan of compromise or arrangement under the CCAA (the "Plan") in order to operate an orderly restructuring of the Applicants' business and financial affairs, in accordance with the terms of the Initial Order; (ii) all persons having agreements with the Applicants for the supply of goods and services must continue to provide goods and services in the normal course of business; and (iii) no person shall discontinue, fail to honour, alter, interfere with, repudiate, resiliate, cancel, terminate or cease to perform any right, renewal right, contract, agreement, license or permit in favour of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or with the leave of the Court.

In connection with its role, the Initial Order imposes a number of duties and functions on the Monitor, including, but not limited to, assisting the Applicants in connection with their restructuring and reporting to the Court on the state of the business and financial affairs of the Applicants and on developments in the CCAA Proceedings, as the Monitor considers appropriate. Reference should be made to the Initial Order, as amended and the Monitor's reports (available on the Monitor's website at www.deloitte.com/ca/homburg-invest) for a more complete description of the duties and functions of the Monitor. Further information pertaining to the CCAA Proceedings may be obtained through Homburg Invest's website at www.homburginvestinformation.ca (English language portal), or www.homburginvestinformatie.nl (Dutch language portal). The content of the foregoing websites do not form part of this report.

The Initial Order also provides for a general stay and, pursuant to subsequent orders of the Court rendered on October 7, 2011, December 8, 2011 and March 16, 2012, this stay period was extended respectively to December 9, 2011, March 16, 2012 and May 31, 2012. The stay period is subject to further extensions as the Court may deem appropriate.

The CCAA is a Canadian federal law allowing insolvent companies that owe their creditors in excess of \$5 million to restructure their business and financial affairs. CCAA is not bankruptcy. The main purpose of the CCAA is to enable financially distressed companies to avoid bankruptcy or foreclosure or seizure of assets while maximizing returns for their creditors and preserving both jobs and the Company's value as a functioning business. CCAA proceedings are carried out under the supervision of the Court. The purpose of this application is to allow the Company to restructure its activities and enhance its balance sheet in an orderly fashion and in the best long-term interests of its stakeholders.

As a result of CCAA proceedings, the Company is periodically required to file various documents with and provide certain information to the Court. These documents and information may include statements of financial affairs, schedules of assets and liabilities, monthly operating reports, information relating to forecasted cash flows, as well as certain other financial information. Such documents and information may be prepared or provided on an unconsolidated, unaudited or preliminary basis, or in a format different from that used in the financial statements included in our periodic reports filed on SEDAR. Accordingly, the substance and format of these documents and information may not allow meaningful comparison with our regularly-disclosed financial statements. Moreover, these documents and information are not prepared for the purpose of providing a basis for an investment decision relating to our securities, or for comparison with other financial information filed with

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

various securities commissions.

Other Recent Developments

Global economic and market conditions continued to impact the Company's results. Generally poor conditions in European markets, particularly in the The Netherlands affected vacancies and values. As a result, the Company's net operating income decreased during the year.

During the same period, the Board of Directors of the Company unanimously determined that the unsolicited non-binding proposal submitted by the former Chairman and CEO, Mr. Richard Homburg, on June 6, 2011, was not in the best interests of the Company. Mr. Richard Homburg then announced his intention to launch a public takeover bid for the Company at \$3.25 per Class A share and Class B share, in cash, which was subsequently rescinded.

During the same period, the Company entered into a purchase agreement (the "Purchase Agreement") with Homburg Canada Incorporated ("HCI") and certain of its affiliates (collectively, the "Vendor Group") pursuant to which the Company further internalized the management of its properties. The Purchase Agreement was entered into to facilitate the diligent pursuit of HII's restructuring efforts with a view to submitting a Plan to creditors in due course. The Agreement provides that the Company will acquire from the Vendor Group the real estate management business activities carried on by the Vendor Group with respect to the properties owned by the Company in Europe (other than those located in the Baltics) (the "Purchased Management Business"), and all related assets owned or used or held by the Vendor Group which relate to the Purchased Management Business. The closing will also settle the claim for damages received from HCI totaling approximately \$27.3 million further to the termination by the Company of the master property and asset management agreement between the Company and certain of its affiliates and HCI and certain outstanding intercompany payables owing to the Vendor Group. The Purchase Agreement also provides the granting to the Company of options (the "Options") which provide the Company with various control acquisition mechanisms in respect of the assets held through its Partnerships but controlled by Homburg L.P. Management Incorporated ("HLPM"), an affiliate of the Vendor Group, as general partner, including, but not limited to, the option to obtain, directly or indirectly, title to the shares of HLPM and the option to require the resignation of HLPM as general partner of any or all Partnerships, which options shall be exercised in a time and manner subject to the approval of the Court and the Monitor. The consideration payable by HII for the Transaction is equal to \$13.6 million, subject to certain adjustments. It is to be satisfied by a series of cash payments totaling \$10.5 million, plus other consideration.

On September 13, 2011 the Company sold 3 million Units (as hereinafter defined) of CANMARC Real Estate Investment Trust (formerly Homburg Canada Real Estate Investment Trust) ("CANMARC") on a bought deal basis, which resulted in a non-cash loss of approximately \$13 million. As a result, HII's voting ownership in CANMARC decreased from 23.1% to 16.1%. Thus, the Company no longer has significant influence in CANMARC and has reclassified its investment from an equity investment to a portfolio investment. Subsequent to year end, the Company sold its remaining 16.1% interest in CANMARC for cash proceeds of approximately \$145.4 million. (See Subsequent Events later in this MD&A).

PROPERTIES OWNED

HII is a public real estate company owning 124 properties with an estimated fair value of \$1.4 billion and 7.5 million square feet of space as at December 31, 2011 in three main asset classes (office, retail, and industrial) and in four main geographical areas (Germany, The Netherlands, the Baltic States (Latvia, Estonia and Lithuania) and North America).

	December 31, 2011 (Millions, except for properties)			December 31, 2010 (Millions, except for properties)		
	Buildings	Fair Value	Gross Sq.Ft.	Buildings	Fair Value	Gross Sq.Ft.
By geographical segment						
Germany	16	\$ 668.2	2.5	16	\$ 748.7	2.5
The Netherlands	32	320.9	3.7	32	422.9	3.7
Baltic States	53	204.7	1.0	53	208.3	1.0
North America	12	30.5	0.3	11	21.8	0.3
Sub total	113	1,224.3	7.5	112	1,401.7	7.5
By property type						
Office	77	\$ 961.2	5.1	77	\$ 1,090.9	5.1
Retail	8	102.3	0.3	7	106.6	0.3
Industrial	28	160.8	2.1	28	204.2	2.1
Sub total	113	1,224.3	7.5	112	1,401.7	7.5
Land and property held for future development (a)	5	73.1		6	107.6	
Construction properties being developed for resale (b)	4	26.5		4	36.9	
Investment property under construction (c)	2	70.6		3	109.8	
Total	124	\$ 1,394.5	7.5	125	\$ 1,656.0	7.5

* Numbers of buildings, units and gross square footage excludes assets available for sale.

(a) Land and property held for future development - a 146 acre parcel of land on the outskirts of Calgary, Alberta, that could be developed into single family and multi residential units; a 140 acre parcel of land on the outskirts of Calgary, Alberta, that could be developed into single family and multi residential units; a parcel of land in Calgary, Alberta that the Company could develop into a condominium complex containing 214 units; a 217 acre parcel of land in Calgary, Alberta that could be developed into commercial properties; a 39 acre parcel of land in Calgary, Alberta that the Company could develop primarily into

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

approximately 600 single family dwellings.

- (b) Construction properties being developed for resale - 4 condominium units in Calgary, Alberta (Castello); 17 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); 41 condominium units in Grande Prairie, Alberta (Inverness Estates); and 14 condominium units in Charlottetown, Prince Edward Island (Powmal Street). (see subsequent events later in this MD&A)
- (c) Investment property under construction - a parcel of land in Calgary, Alberta that is being developed into a four building office campus; and a 440 unit residential complex in Calgary, Alberta (Kai Towers).

NON-IFRS FINANCIAL MEASURES

The MD&A includes measures widely accepted within the real estate industry which are not defined by International Financial Reporting Standards ("IFRS"). These measures include Net Operating Income ("NOI"), Funds From Operations ("FFO") and Funds From Operations per share. These are not defined measures calculated in accordance with IFRS and may not be comparable to similar measures presented by other issuers. The Company considers these amounts to be measures of operating and financial performance.

- a) NOI is calculated as Property Revenue less Property Operating Expenses.
- b) FFO is presented by the Company as net income (loss) from continuing operations adjusted for deferred and capital income taxes (recovery), unrealized and realized valuation changes, fair value change in financial instruments, loss (gain) on derivative instruments, impairment loss on development properties, foreign exchange loss (gain), accretion and changes in provisions, share of associates net loss (income) net of distributions earned, accelerated accretion expense, 50% of Pre September 9, 2011 interest expense subject to compromise, 100% of post September 9, 2011 interest expense subject to compromise, contract termination claim and expenses relating to CCAA filing.
- c) FFO per share is calculated as Funds From Operations divided by either the basic or diluted weighted average number of shares.

The following table reconciles IFRS net income (loss) to FFO for the three and twelve month periods ended December 31, 2011 and 2010:

	3 Months Ended Dec. 31, 2011	Year Ended Dec. 31, 2011	3 Months Ended Dec. 31, 2010	Year Ended Dec. 31, 2010
	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>
Net income (loss) from continuing operations	\$ (244.4)	\$ (359.8)	\$ 10.3	\$ 18.3
Add (deduct):				
Share of loss of an associate net of distributions earned	(8.9)	24.2	13.2	20.8
Interest on liabilities subject to compromise	27.0	27.0		
Unrealized valuation changes	258.6	270.5	66.0	47.9
Realized valuation changes			0.7	(3.6)
Amortization of financing costs	0.2	16.4	1.3	4.7
Deferred and capital income tax (recovery) / expense	(10.1)	(9.1)	48.0	43.3
Foreign exchange gain	(42.6)	(23.0)	(11.0)	(20.1)
Accelerated accretion expense	(0.2)	36.8		
Loss (gain) on derivative instruments	1.6	5.3	(9.4)	0.7
Expenses relating to CCAA filing	10.8	13.2		
Gain on sale of subsidiary			(107.2)	(107.2)
Impairment on development properties for resale	2.5	2.5	7.8	7.8
Accretion and Change in provisions	6.1	6.9	(4.7)	(4.4)
Contract termination claim	14.9	14.9		
Fair value change in financial instruments	(18.8)	(32.5)	0.5	(0.1)
Funds from operations (FFO)	(3.3)	(6.7)	15.5	8.1
Add (deduct): net gain (loss) on sale of properties developed for resale	(0.3)	0.1	(3.0)	(6.3)
FFO, net of sale of properties developed for resale	\$ (3.0)	\$ (6.8)	\$ 18.5	\$ 14.4

Funds from operations (FFO) from continuing operations, net of the sale of properties developed for resale, was \$(3.0) million for the three-month period ended December 31, 2011, compared to \$18.5 million recorded in the same period in 2010.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

SELECTED ANNUAL INFORMATION

The annual information shown below is provided for the last three years, and the quarterly information for the last eight quarters is provided in a subsequent section. The Company's reporting currency is Canadian dollars.

(Millions, except for per share amounts)

	2011	2010	2009
Property revenue	\$ 127.2	\$ 133.0	\$ 175.6
Sale of properties developed for resale	\$ 12.8	\$ 15.1	\$ 110.3
Realized valuation changes	\$	\$ 3.6	\$ 2.2
Unrealized valuation changes	\$ (255.3)	\$ (57.0)	\$ (360.9)
Share of income of an associate	\$ (15.7)	\$ (12.6)	\$
Other income	\$ 22.9	\$ 27.0	\$ 27.3
Total revenue and other gains	\$ (92.5)	\$ 121.7	\$ (45.5)
Net operating income	\$ 101.9	\$ 107.4	\$ 142.9
Earnings (loss) before income taxes - continued operations	\$ (364.8)	\$ 49.5	\$ (445.4)
Per Share - Basic and diluted	\$ (18.10)	\$ 2.45	\$ (22.46)
Net earnings (loss) - continued operations	\$ (359.8)	\$ 18.3	\$ (361.9)
Per Share - Basic and diluted	\$ (16.42)	\$ 0.75	\$ (18.33)
Net loss - discontinued operations	\$ (0.5)	\$ (106.4)	\$ (87.4)
Per Share - Basic and diluted	\$ (0.02)	\$ (5.27)	\$ (4.41)
Net loss	\$ (360.3)	\$ (88.1)	\$ (449.3)
Per Share - Basic and diluted	\$ (16.44)	\$ (4.52)	\$ (22.74)
Funds from operations, net of development pipeline, net of gross income (loss) from the sale of properties being developed for resale	\$ (6.8)	\$ 14.4	\$ 16.5
Per Share - Basic and diluted	\$ (0.34)	\$ 0.71	\$ 0.84
Total assets	\$ 1,728.2	\$ 2,062.9	\$ 3,292.2
Total long term debt	\$ 987.7	\$ 1,618.5	\$ 2,641.7
Liabilities subject to compromise	\$ 794.4	\$ NIL	\$ NIL
Dividend declared per share	\$ NIL	\$ NIL	\$ NIL

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

Foreign Exchange Rates

The results of the Company's international operations are impacted by fluctuations in average and period end foreign exchange rates, mainly from the Euro and to a lesser extent by the US dollar. A discussion of the Company's approach to managing currency risk is included in the section entitled "Liquidity, Capital Resources and Capital Commitments" later in this MD&A. The prevailing quarterly average and year-end foreign exchange rates over the past three years were as follows:

	Q4 Average Rate		Q3 Average Rate		Q2 Average Rate		Q1 Average Rate	
EUR : CAD	2011	1.37706	2011	1.37575	2011	1.36990	2010	1.34760
EUR : CAD	2010	1.36843	2010	1.36371	2010	1.37676	2009	1.44309
% Change		0.6%		0.9%		(0.5)%		(6.6)%
USD : CAD	2011	0.98933	2011	0.97778	2011	0.97690	2010	0.98610
USD : CAD	2010	1.03075	2010	1.03597	2010	1.03479	2009	1.04145
% Change		(4.0)%		(5.6)%		(5.6)%		(5.3)%

	Year-End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	2011	1.32080	Q4 2011	1.32080	Q3 2011	1.40450	Q2 2011	1.40510	Q1 2011	1.37064
EUR : CAD	2010	1.32580	Q3 2011	1.40450	Q2 2011	1.40510	Q1 2011	1.37064	Q4 2010	1.32560
% Change		(0.4)%		(6.0)%		-%		2.5%		3.4%
USD : CAD	2011	1.01990	Q4 2011	1.01990	Q3 2011	1.03290	Q2 2011	0.97650	Q1 2011	0.97223
USD : CAD	2010	1.00020	Q3 2011	1.03290	Q2 2011	0.97650	Q1 2011	0.97223	Q4 2010	1.00020
% Change		2.0%		(1.3)%		5.8%		0.4%		(2.8)%

	Q4 Average Rate		Q3 Average Rate		Q2 Average Rate		Q1 Average Rate	
EUR : CAD	2010	1.36843	2010	1.36371	2010	1.37676	2010	1.44309
EUR : CAD	2009	1.58706	2009	1.59533	2009	1.60749	2009	1.62509
% Change		(13.8)%		(14.5)%		(14.4)%		(11.2)%
USD : CAD	2010	1.03075	2010	1.03597	2010	1.03479	2010	1.04145
USD : CAD	2009	1.14172	2009	1.16997	2009	1.20559	2009	1.24298
% Change		(9.7)%		(11.5)%		(14.2)%		(16.2)%

	Year-End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	2010	1.32560	Q4 2010	1.32560	Q3 2010	1.40330	Q2 2010	1.27990	Q1 2010	1.37140
EUR : CAD	2009	1.50410	Q3 2010	1.40330	Q2 2010	1.27990	Q1 2010	1.37140	Q4 2009	1.50410
% Change		(11.9)%		(5.5)%		9.6%		(6.7)%		(8.8)%
USD : CAD	2010	1.00020	Q4 2010	1.00020	Q3 2010	1.03009	Q2 2010	1.04840	Q1 2010	1.01920
USD : CAD	2009	1.04940	Q3 2010	1.03009	Q2 2010	1.04840	Q1 2010	1.01920	Q4 2009	1.04940
% Change		(4.7)%		(2.9)%		(1.7)%		2.9%		(2.9)%

Euro-Canadian dollar exchange rate: Fluctuations in the Euro exchange rates, compared to the Canadian dollar, impact the results of the Company's significant European operations located in Germany, The Netherlands, and the Baltic States, as well as the Company's unhedged Euro denominated debt which consisted of €464.3 million at December 31, 2011 and €200.0 million at December 31, 2010. The average rate for Q4 2011 of \$1.38 was 0.6% higher than the comparative period average rate of \$1.37 which had a favourable impact on the results of the Company's European operations when comparing Q4 2011 to Q4 2010. The closing rate at December 31, 2011 of \$1.32 was 0.8% lower than the closing rate of \$1.33 at December 31, 2010, which favourably decreased the Canadian dollar equivalent amount of the Company's unhedged Euro denominated debt which stood at €464.3 million at December 31, 2011.

US dollar-Canadian dollar exchange rate: Fluctuations in the US dollar exchange rates compared to the Canadian dollar impact the results of the Company's operations located in the USA. However, the impacts are generally insignificant due to the relative size of the USA operations which comprised 5.9% of NOI in Q4 2011 and 6.1% of NOI in Q4 2010. Fluctuations in the US dollar also impact the Company's unhedged US dollar denominated debt which consisted of US\$20 million at both December 31, 2011 and December 31, 2010.

Discontinued operations

On May 25, 2010 the Company sold off its portfolio of Canadian income producing investment properties to CANMARC for cash proceeds of \$114.5 million, Units in CANMARC at a fair value of \$143,139 plus a bargain purchase gain of \$69,380 resulting in a pre-tax loss of \$158,943. This represented 24 office properties, 66 retail properties, 12 residential properties, and 8 industrial properties for a combined gross square footage of 8.9 million.

OVERALL PERFORMANCE

Total property revenue was \$127.2 million in 2011, compared to \$133.0 million in 2010, a decrease of 4.4%. Property revenue on the European portfolio decreased by 4.9% from \$115.3 million in 2010 to \$109.7 million in 2011. Approximately half of this 4.9% decrease relates to the sale of a German industrial property on December 31, 2010 which generated revenue of \$2.5 million in 2010. The balance of the decrease in revenue resulted from the loss of several tenants in The Netherlands throughout 2010 and 2011. Property revenue from the North America segment decreased slightly to \$17.5 million in 2011 compared to \$17.7 million in 2010, representing a 1.1% decrease, which is reflective of the stable base of investment properties, tenants, leasing and occupancy rates in the US properties during these periods given the decrease of the USD-CAD exchange rate ranging from 5.3% in Q1 2011 to 4.0% in Q4 2011.

Revenue and Gross Profit from the Sale of Properties Developed for Resale

Revenue and gross profit (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale fluctuates depending on level of activity in the development pipeline, the time taken to complete various projects, the relative

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

strength of selling prices in the real estate market, and other unique or singular events.

Revenue decreased by \$2.3 million from \$15.1 million in 2010 to \$12.8 million in 2011. The gross gain from the sale of development properties was \$0.1 million in 2011.

Net Operating Income

In general, the Company's NOI results are unaffected by seasonal trends; however, occupancy rates and scheduled rent increases can impact quarterly results, and the European and USA operating segment results can fluctuate depending on the relative strength of the Canadian dollar compared to the Euro and US dollar, respectively.

NOI decreased by approximately \$5.5 million or 5.1% from \$107.4 million in 2010 to \$101.9 in 2011. The decrease in NOI is related to the decrease in property revenue as discussed above relating to the loss of several major tenants throughout 2010 and 2011. Property operating expenses decreased \$0.3 million or 1.2% from \$25.6 million in 2010 to \$25.3 million in 2011.

Other Income and Gains

Other income decreased by approximately \$4.1 million from \$27.0 million in 2010 to \$22.9 in 2011. \$3.0 million was accrued for a claim settlement and \$1.0 million of additional expenses were incurred regarding the sale of an investment property under construction. An increase in foreign exchange gain of approximately \$2.9 million resulted from a gain of \$23.0 million recorded in 2011 versus \$20.1 million in 2010. The foreign exchange gain in 2011 resulted from the financial instruments designated as hedges of self sustaining foreign operations no longer being effective in the fourth quarter.

Interest Expense

Interest expense on long term debt was \$134.8 million in 2011, compared to \$110.6 million in 2010, an increase of \$24.2 million, primarily as a result of the discount associated with deferred financing charges being eliminated during 2011 and included in interest expense in 2011 on debt that went into default and became due. The weighted average fixed interest rate on long term debt decreased slightly to 5.2%, down from 6.1% at December 31, 2010.

The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €119.3 million (\$157.6 million) of its long term debt (December 31, 2010 - EUR €148.3 million (\$196.6 million)). During the year ended December 31, 2010 a loss of \$0.7 million was recorded on these derivative financial instruments due to a slight reduction in interest rates in The Netherlands, Germany, and the Baltics. Interest rates in Europe continued to decrease during the year ended December 31, 2011, leading to a further loss of \$5.3 million being recorded in 2011.

Net Adjustments to Fair Values, Impairment Charges and Provisions

As a result of independent third party appraisals and management estimates, a negative fair value adjustment to investment properties and investment properties under development of \$255.3 million was recorded in 2011, compared to an adjustment of \$57.0 million in 2010. These adjustments are reflective of the challenges facing the real estate industry since the global economic crisis began in late 2008, the continuing weakening real estate market in the Netherlands, and now in the case of the Company, CCAA.

General and Administrative

General and administrative expenses increased by \$9.9 million to \$24.7 million in 2011 compared to \$14.8 million in 2010. The increase relates primarily to legal and professional fees stemming from the internalization of HII management from Homburg Canada Inc. and pre-CCAA filing work as well as the related employee salaries from July 29, 2011.

Earnings / Loss Before Income Taxes From Continuing Operations

The loss before income taxes was \$364.8 million in 2011 compared to net income of \$49.5 million in 2010, a decline of \$414.3 million. This was primarily due to:

- An increase in negative fair value adjustments of \$198.3 million, from \$57.0 million recorded in 2010 to \$255.3 million recorded in 2011 related to declining market values since 2010;
- A gain on sale of subsidiary of \$106.4 million was recorded in 2010 relating to the sale of the Nuremberg, Germany property and related debt on December 31, 2010;
- Due to the CCAA filing the HCSA are now in default, which has resulted in an accelerated accretion of the HCSA principal amount of \$36.8 million in 2011;
- An incremental loss of \$3.1 on the Company's share of income of an associate of \$15.7 million in 2011 versus \$12.6 in 2010 in relation to several sales of CANMARC units on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership;
- Contract termination claim of \$14.9 pertaining to the termination by the Company of the master property and asset management agreement between the Company and Homburg Canada Inc.;
- Expenses related to CCAA filings of \$13.2 during 2011;

Offset by:

- A improvement of \$32.4 million in fair value gains recorded on held for trading financial assets;
- A foreign exchange gain of approximately \$23.0 million recorded in 2011, compared to a gain of \$20.1 million recorded in 2010, an increase of \$2.9 million.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

Balance Sheet Highlights

Total assets decreased by \$334.7 million to \$1,728.2 million in 2011 from \$2,062.9 million in 2010, mainly resulting from negative fair value adjustments to investment properties and investment properties under development of \$255.3 million. As well, there was a \$50.7 million reduction in the Company's investment in CANMARC. During 2011 the Company sold 5.5 million Units on a bought deal basis and HII's ownership in CANMARC decreased from 33.7% to 16.1%. As a result of the decreased ownership the Company no longer has significant influence in CANMARC and has reclassified its investment as a portfolio investment. Subsequent to year end, the Company sold its remaining 16.1% interest in CANMARC for cash proceeds of approximately \$145.4 million. (See Subsequent Events later in this MD&A).

Total long term debt, which includes certain liabilities subject to compromise, increased by \$17.6 million to \$1,636.1 million in 2011 from \$1,618.5 million in 2010. Of the increase, \$35.4 million relates to the accelerated accretion of Homburg Capital Securities A which are now in default and is partially offset by a decrease in mortgages of \$31.8 million. The remaining difference is due to foreign currency fluctuations.

Shareholders' equity decreased \$372.0 million from \$101.7 million at December 31, 2010 to \$(270.3) million at December 31, 2011. The net loss for 2011 amounted to \$360.3 million. Other comprehensive loss increased by \$11.4 million largely relating to foreign currency losses on financial instruments designated as hedges on self sustaining foreign operations no longer being effective in the fourth quarter of 2011. Share capital decreased by \$0.6 million resulting from the Normal Course Issuer Bid. Other paid in capital decreased by \$29.2 million related to the Homburg Capital Securities A which was largely offset by a corresponding decrease in deficit by \$28.9 million.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended							
	Dec 31 2011	Sep 30 2011	Jun 30 2011	Mar 31 2011	Dec 31 2010	Sep 30 2010	Jun 30 2010	Mar 31 2010
	<i>(Millions, except for per share amounts)</i>							
Property revenue	\$ 31.4	\$ 31.6	\$ 31.9	\$ 32.3	\$ 35.4	\$ 27.5	\$ 31.2	\$ 35.6
Sale of properties developed for resale	2.1	5.8	3.2	1.7	1.9	2.5	5.2	5.5
Realized valuation changes					(0.7)		(0.2)	4.5
Unrealized valuation changes	(243.5)	(1.4)	(27.0)	16.6	(56.8)	10.0	(2.1)	0.9
Share of income of an associate	8.9	(17.9)	2.9	(9.6)	(14.1)	(0.1)	1.6	
Other income	59.2	5.3	(10.1)	(4.3)	20.8	(12.5)	4.6	13.5
Total revenue and other gains	\$ (141.9)	\$ 23.4	\$ 0.9	\$ 36.7	\$ (13.5)	\$ 27.4	\$ 40.3	\$ 60.0
Net operating income	\$ 25.1	\$ 25.8	\$ 25.2	\$ 25.8	\$ 25.7	\$ 24.8	\$ 26.6	\$ 30.1
Earnings (loss) before taxes- Continuing Operations	\$ (254.6)	\$ (70.3)	\$ (40.2)	\$ 0.3	\$ 43.3	\$ (5.6)	\$ (4.3)	\$ 16.0
Per Share - Basic and diluted	\$ (12.62)	\$ (3.49)	\$ (1.99)	\$ 0.02	\$ 2.10	\$ (0.32)	\$ (0.25)	\$ 0.76
Net earnings (loss) - Continuing Operations	\$ (244.4)	\$ (70.5)	\$ (41.6)	\$ (3.3)	\$ 10.3	\$ 1.3	\$ (9.6)	\$ 16.1
Per Share - Basic and diluted	\$ (10.60)	\$ (1.97)	\$ (2.10)	\$ (0.20)	\$ 0.44	\$ 0.02	\$ (0.51)	\$ 0.76
Net earnings - Discontinued Operations	\$ (1.2)	\$ 0.4	\$ 0.5	\$ (0.2)	\$ (3.5)	\$ (1.3)	\$ (103.1)	\$ 1.7
Per Share - Basic and diluted	\$ (0.06)	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.18)	\$ (0.06)	\$ (5.09)	\$ 0.08
Net earnings (loss)	\$ (245.6)	\$ (70.0)	\$ (41.1)	\$ (3.5)	\$ 6.8	\$ 0.1	\$ (112.7)	\$ 17.8
Per Share - Basic and diluted	\$ (10.66)	\$ (1.95)	\$ (2.08)	\$ (0.21)	\$ 0.26	\$ (0.04)	\$ (5.60)	\$ 0.84
Funds from operations, net of gross income (loss) from the sale of properties developed for resale	\$ (3.0)	\$ (2.9)	\$ (1.8)	\$ 0.2	\$ 9.2	\$ 2.6	\$ (2.6)	\$ 2.9
Per Share - Basic and diluted	\$ (0.15)	\$ (0.14)	\$ (0.09)	\$ 0.01	\$ 0.47	\$ 0.13	\$ (0.13)	\$ 0.14
Total assets	\$ 1,728.2	\$ 2,099.2	\$ 2,088.6	\$ 2,097.0	\$ 2,062.9	\$ 2,324.9	\$ 2,192.5	\$ 3,096.9
Total long term debt	\$ 987.7	\$ 1,749.0	\$ 1,703.6	\$ 1,666.8	\$ 1,618.5	\$ 1,729.3	\$ 1,793.7	\$ 2,493.5
Dividend declared per share	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL

Fourth Quarter 2011 Results

Property revenues from continuing operations were \$31.4 million during the fourth quarter ended December 31, 2011, compared to \$35.4 million for the same quarter in 2010 for a decrease of \$4.0 million. This was due to the loss of several tenants throughout 2011.

Net operating income (NOI) was \$25.1 million in the fourth quarter of 2011, compared to \$25.7 million in the fourth quarter of 2010 for an increase of \$(0.6) million.

The Company incurred a loss before taxes from continuing operations for the fourth quarter of 2011 of \$254.6 million (\$12.62 per share), compared to earnings before taxes of \$43.3 million in the same period in 2010 (\$2.10 per share), an unfavourable variance of \$297.9 million. The decrease relates primarily to the following:

- A net decrease in fair value of investment properties of \$193.7 million in Q4 2011 compared to a net decrease in fair market value of \$52.6 million in Q4 2010.
- The Company realized a gain of \$107.2 million in Q4 2010 relating to the sale of the Nuremberg, Germany property.
- In Q3 2011 the Company began incurring expenses relating to CCAA filings. For Q4 2011 these amounted to \$10.7 million.
- Investment properties under development saw a fair value decrease of \$49.8 million in Q4 2011 compared to a fair value decrease of \$16.7 in Q4 2010.

Offset by:

- A foreign exchange gain of \$42.5 million was recorded in Q4 2011, compared to a gain of \$11.0 million in Q4 2010, a positive variance of \$31.5 million. The gain in Q4 2011 resulted from a 6.0% strengthening of the Canadian dollar compared to the Euro between Q3 2011 and Q4 2011 from \$1.40:€1 in the prior quarter to \$1.32:€1 at December 31, 2011, as well as the financial instruments designated as hedges of self sustaining foreign operations no longer being deemed effective.
- A fair value gain on held for trading financial assets of \$18.8 million in Q4 2011, compared to a loss of \$0.5 in Q4 2010, a positive variance of \$19.3 million, resulting primarily from the reclassification of CANMARC to a portfolio investment from an equity investment. Similarly, this reclassification yielded a positive variance as the Q4 2010 loss on income of associate of \$14.1 was not incurred in the current quarter.

FFO, net of the sale of properties developed for resale, was \$(3.0) million in Q4 2011 compared to \$9.2 million in Q4 2010.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

Third Quarter 2011 Results

Property revenues from continuing operations were \$31.6 million during the third quarter ended September 30, 2011, compared to \$27.5 million for the same quarter in 2010 for an increase of \$4.1 million.

Net operating income (NOI) was \$25.8 million in the third quarter of 2011, compared to \$24.8 million in the third quarter of 2010 for an increase of \$1.0 million. The increase is primarily due to increased property revenue.

The Company incurred a loss before taxes from continuing operations for the third quarter of 2011 of \$70.3 million (\$3.49 per share), compared to loss before taxes of \$5.6 million in the same period in 2010 (\$0.32 per share), an unfavourable variance of \$64.7 million. The decrease relates primarily to the following:

- A net decrease in fair value of investment properties of \$5.5 million in Q3 2011 compared to a net increase in fair market value of \$13.5 million in Q3 2010.
- Investment properties under development saw a fair value increase by \$4.1 million in Q3 2011 compared to nil in Q3 2010.
- A foreign exchange loss of \$1.6 million was recorded in Q3 2011, compared to a loss of \$10.6 million in Q3 2010, a variance of \$9.0 million. The loss in Q3 2011 resulted despite a minimal strengthening of the Canadian dollar compared to the Euro between Q2 2011 and Q3 2011 from \$1.41:€1 in the prior quarter to \$1.40:€1 at September 30, 2011.
- A Q3 loss on the Company's share of income on an associate of \$17.9 million in relation to a September 2011 public offering of Units completed by CANMARC on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership from 23.1% to 16.1%.
- A fair value gain on held for trading financial assets of \$13.7 million in Q3 2011, compared to a minimal loss in Q3 2010, a positive variance of \$13.7 million, resulting from increases in the market prices on the Company's quoted investments;
- A \$37.0 million expense due to the accelerated accretion of the Homburg Capital Securities A principal amount.

FFO, net of the sale of properties developed for resale, was \$(2.9) million in Q3 2011 compared to \$2.6 million in Q3 2010.

Second Quarter 2011 Results

Property revenues from continuing operations were \$31.9 million during the second quarter ended June 30, 2011, compared to \$31.2 million for the same quarter in 2010 for an increase of \$0.7 million.

Net operating income (NOI) was \$25.2 million in the second quarter of 2011, compared to \$26.6 million in the second quarter of 2010 for a decrease of \$1.4 million. The decrease is primarily due to the headlease commitments incurred in Q2 2011 that were not present in 2010.

The Company incurred loss before taxes from continuing operations for the second quarter of 2011 of \$40.2 million (\$1.99 per share), compared to loss before taxes of \$4.3 million in the same period in 2010 (\$0.25 per share), a variance of \$35.9 million. The decrease relates primarily to the following:

- A net decrease in fair value of investment properties of \$12.8 million in Q2 2011 compared to a net decrease in fair market value of \$0.9 million in Q2 2010.
- Investment properties under development decreased by \$14.2 million in Q2 2011.
- A foreign exchange loss of \$7.8 million was recorded in Q2 2011, compared to a gain of \$6.5 million in Q2 2010, a variance of \$14.3 million. The loss in Q2 2011 resulted from a 2.5% weakening of the Canadian dollar compared to the Euro between Q1 2011 and Q2 2011 from \$1.37:€1 in the prior quarter to \$1.41:€1 at June 30, 2011.

FFO, net of the sale of properties developed for resale, was \$(1.8) million in Q2 2011 compared to \$(2.6) million in Q2 2010. The decrease of \$0.8 million primarily related to lower NOI of \$1.4 million.

First Quarter 2011 Results

Property revenues from continuing operations were \$32.3 million during the first quarter ended March 31, 2011, compared to \$35.6 million for the same quarter in 2010 for a decrease of \$3.3 million. The decrease is mainly a result of the 6.8% decrease in the average value of the Euro against the Canadian dollar in the first quarter of 2011 compared to the same quarter last year.

Net operating income (NOI) was \$25.8 million in the first quarter of 2011, compared to \$30.1 million in the first quarter of 2010 for a decrease of \$4.3 million. The decrease is primarily due to the property revenue fluctuations in Europe as outlined above as well as \$0.6 million in headlease commitments incurred in Q1 2011 that were not present in 2010.

The Company incurred earnings before taxes from continuing operations for the first quarter of 2011 of \$0.3 million (\$0.02 per share), compared to a gain before taxes of \$16.0 million in the same period in 2010 (\$0.76 per share), a variance of \$15.7 million. The decrease relates primarily to the following:

- A net increase in fair value of investment properties of \$15.6 million in Q1 2011 compared to a net increase in fair market value of \$0.9 million in Q1 2010.
- Investment properties under development increased by \$1.0 million in Q1 2011.
- Lower interest expense in Q1 2011 by \$5.1 million over Q1 2010, mainly due to the reduction of debt at March 31, 2011 as well as the slight strengthening of the Canadian dollar against the Euro.
- A foreign exchange loss of \$10.2 million was recorded in Q1 2011, compared to a gain of \$13.2 million in Q1 2010, a variance of \$23.4 million. The loss in Q1 2011 resulted from a 3.4% weakening of the Canadian dollar compared to the Euro between Q4 2010 and Q1 2011 from \$1.33:€1 in the prior quarter to \$1.37:€1 at March 31, 2011.
- A Q1 loss on the Company's share of income on an associate of \$9.6 million in relation to a March 2011 public offering of Units completed

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

by CANMARC on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership from 33.7% to 23.1%.

FFO, net of the sale of properties developed for resale, was \$0.2 million in Q1 2011 compared to \$2.9 million in Q1 2010. The decrease of \$2.7 million primarily related to lower NOI of \$4.3 million.

RESULTS OF OPERATIONS

Property revenue and net operating income

Information related to geographical operating segments is summarized below. Property revenue includes rental revenue and tenant cost recoveries. Net operating income has been calculated by deducting direct property operating expenses related to property revenue, and is exclusive of general and administrative expenses, depreciation and amortization, and interest on related debt.

<i>Geographical Segments (In millions unless otherwise stated)</i>	<u>Germany</u>	<u>Netherlands</u>	<u>The Baltics</u>	<u>North America</u>	<u>Total</u>
Year ended December 31, 2011					
Property revenue	\$ 60.8	\$ 30.2	\$ 18.7	\$ 17.5	\$ 127.2
Operating expenses	1.7	7.2	4.9	11.5	25.3
Net operating income	\$ 59.1	\$ 23.0	\$ 13.8	\$ 6.0	\$ 101.9
Occupancy rate at December 31, 2011	100.0 %	61.9 %	79.2 %	88.3 %	
Year ended December 31, 2010					
Property revenue	\$ 63.2	\$ 33.2	\$ 18.9	\$ 17.7	\$ 133.0
Operating expenses	4.6	3.9	5.9	11.2	25.6
Net operating income	\$ 58.6	\$ 29.3	\$ 13.0	\$ 6.5	\$ 107.4
Occupancy rate at December 31, 2010	100.0 %	69.0 %	78.2 %	89.6 %	
Three months ended December 31, 2011					
Property revenue	\$ 15.3	\$ 6.4	\$ 5.2	\$ 4.6	\$ 31.5
Operating expenses	0.5	2.4	1.3	2.1	6.3
Net operating income	\$ 14.8	\$ 4.0	\$ 3.9	\$ 2.5	\$ 25.2
Three months ended December 31, 2010					
Property revenue	\$ 17.2	\$ 8.4	\$ 4.8	\$ 4.9	\$ 35.3
Operating expenses	1.9	1.8	1.6	4.4	9.7
Net operating income	\$ 15.3	\$ 6.6	\$ 3.2	\$ 0.5	\$ 25.6

Total property revenue was \$127.2 million in 2011, compared to \$133.0 million in 2010, a decrease of \$5.8 million or 4.4%. Nearly half of this decrease relates to the sale of a German industrial property on December 31, 2010 which generated revenue of \$2.5 million in 2010. The balance of the decrease in revenue resulted from the loss of several tenants in The Netherlands throughout 2010 and 2011, which contributed to increased vacancies in this segment.

Property revenue from the North America segment decreased slightly to \$17.5 million in 2011 compared to \$17.7 million in 2010. This was primarily due to the average USD foreign exchange rate compared to the Canadian dollar being lower in 2011 compared to 2010 by 4.0%. The negative foreign exchange impact was partially offset by a new revenue stream from the hotel situated in Charlottetown, Prince Edward Island which commenced operations in Q3 2011.

Property operating expenses increased by \$0.3 million in the North America segment to \$11.5 million in 2011 compared to \$11.2 million in 2010 due to new headlease commitments in 2011. The European segments experienced a decrease in property operating expenses from a total of \$14.4 million in 2010 to \$13.8 million in 2011 for a variance of \$0.6 million or 4.3%.

NOI decreased by 5.1% in 2011 compared to 2010 as a result of the loss of tenants, new headlease commitments and foreign exchange fluctuations discussed above.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

In addition to the Company's geographical operating segments, the following information summarizes operating results by property classification.

<i>Property Type Segments</i> <i>(In millions unless otherwise stated)</i>	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
Year ended December 31, 2011					
Property revenue	\$ 18.9	\$ 14.3	\$ 93.9	\$ 0.1	\$ 127.2
Operating expenses	<u>5.6</u>	<u>3.2</u>	<u>15.5</u>	<u>1.0</u>	<u>25.3</u>
Net operating income	<u>\$ 13.3</u>	<u>\$ 11.1</u>	<u>\$ 78.4</u>	<u>\$ (0.9)</u>	<u>\$ 101.9</u>
Occupancy rate at December 31, 2011	75.6 %	60.8 %	85.9 %		
Year ended December 31, 2010					
Property revenue	\$ 18.7	\$ 17.0	\$ 97.3	\$	\$ 133.0
Operating expenses	<u>5.3</u>	<u>6.1</u>	<u>13.1</u>	<u>1.1</u>	<u>25.5</u>
Net operating income	<u>\$ 13.4</u>	<u>\$ 10.9</u>	<u>\$ 84.2</u>	<u>\$ (1.1)</u>	<u>\$ 107.4</u>
Occupancy rate at December 31, 2010	72.7 %	57.8 %	92.6 %		
Three months ended December 31, 2011					
Property revenue	\$ 5.1	\$ 3.7	\$ 22.6	\$ 0.1	\$ 31.5
Operating expenses	<u>1.8</u>	<u>0.9</u>	<u>3.4</u>	<u>0.2</u>	<u>6.3</u>
Net operating income	<u>\$ 3.3</u>	<u>\$ 2.8</u>	<u>\$ 19.2</u>	<u>\$ (0.1)</u>	<u>\$ 25.2</u>
Three months ended December 31, 2010					
Property revenue	\$ 4.6	\$ 4.1	\$ 26.6	\$	\$ 35.3
Operating expenses	<u>1.3</u>	<u>2.3</u>	<u>4.8</u>	<u>1.1</u>	<u>9.5</u>
Net operating income	<u>\$ 3.3</u>	<u>\$ 1.8</u>	<u>\$ 21.8</u>	<u>\$ (1.1)</u>	<u>\$ 25.8</u>

The retail portfolio consists of 8 (December 31, 2010 - 7) retail properties, representing a shopping center in Germany, retail spaces in the Baltics, and a hotel in Prince Edward Island, Canada having total rentable square footage of 0.3 million square feet. The retail rental revenue has increased by 1.1% while net operating income for 2011 on the properties held on December 31, 2011 has decreased by 0.7% respectively over the same period in 2010, as the hotel in Prince Edward Island, Canada commenced operations in Q3 2011 and is not yet generating a positive operating income.

The industrial portfolio consists of 28 (December 31, 2010 - 28) industrial buildings located in Europe with a total area of 2.1 million square feet. The Company's industrial buildings generated \$14.3 million total rental revenue in 2011 and \$11.1 million in net operating income compared to \$17.0 million total rental revenue in 2010 and \$10.9 million in net operating income. The revenue decrease of \$2.7 million is primarily due to increased vacancy in the Netherlands as previously discussed. Overall occupancy in the industrial portfolio remains low - 60.8% at December 31, 2011 (57.8% - December 31, 2010) as there are several industrial properties still affected by the real estate economy slump in Europe.

The office portfolio consists of 77 (December 31, 2010 - 77) small to medium sized office buildings in the United States and Europe, with a total area of 5.1 million square feet. Property revenue in 2011 was \$93.9 million compared to \$97.3 million in the same period of 2010 while net operating income was \$78.4 million versus \$84.2 million in 2010. Operations have been fairly stable in this segment, but the decrease is due to the overall occupancy in the office portfolio declining to 85.9% at December 31, 2011 from 92.6% at December 31, 2010.

Properties Developed for Resale

Revenue from the sale of properties developed for resale decreased by \$2.3 million from \$15.1 million in 2010 to \$12.8 million in 2011. Net gain from the sale of development properties was \$0.1 million in 2011, compared to a net loss of \$6.3 million in 2010.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

BALANCE SHEET HIGHLIGHTS

Assets

Total assets decreased from \$2.1 billion at December 31, 2010 to \$1.7 billion at December 31, 2011. The table below summarizes Homburg Invest's asset base.

	December 31 2011 <i>(Millions)</i>	December 31 2010 <i>(Millions)</i>
Investment properties	\$ 1,224.3	\$ 1,401.7
Investment properties under development	143.8	217.4
Investments, at fair market value	148.5	8.9
Investment in an associate, at equity		191.7
Deferred tax assets	1.0	8.3
Restricted cash	8.5	4.1
Cash and cash equivalents	20.5	13.7
Properties under development for resale	26.5	36.9
Receivables and other	31.5	36.0
Assets classified as held for sale	123.7	144.2
	<u>\$ 1,728.3</u>	<u>\$ 2,062.9</u>

Investment Properties and Investment Properties under Development

Investment properties decreased by \$177.4 million from \$1,401.7 million at December 31, 2010 to \$1,224.3 million at December 31, 2011, relating primarily to \$196.4 million of negative fair value adjustments. Investment properties under development decreased by \$73.6 million from \$217.4 million to \$143.8 million at December 31, 2011 mainly due to fair value adjustments of \$59.0 million.

Investment in an Associate, at Equity

On September 13, 2011 the Company sold 3 million Units of CANMARC on a bought deal basis. HII's voting ownership in CANMARC therefore decreased to 16.1%, resulting in the Company no longer having a significant influence in CANMARC and reclassifying its investment to a portfolio investment.

Assets classified as Held for Sale

Assets held for sale decreased by \$20.5 million from \$144.2 million at December 31, 2010 to \$123.7 million at December 31, 2011. This balance relates primarily to the planned sale of the Company's 80% joint venture interest in shopping centers in the United States. Negotiations with interested parties have been ongoing and it is expected that this investment will be sold in the second quarter of 2012.

Receivables and other

Receivables mainly consist of amounts due from tenants and on the sale of properties developed for resale, deferred rental receipts, prepaid expenses, deferred leasing costs and GST rebates on development projects and VAT on foreign subsidiaries, all of which arise in the normal course of operations.

Investments at Fair Market Value

The long term investments totaled \$148.5 million at December 31, 2011 compared to \$8.9 million at December 31, 2010. The difference relates primarily to the reclassification of \$142.7 million of the investment in CANMARC from an equity investment.

Capital Structure

The table below summarizes Homburg Invest's capital structure.

	December 31, 2011 <i>(Millions)</i>		December 31, 2010 <i>(Millions)</i>	
Long term debt	\$ 987.7	66.9 %	\$ 1,618.5	86.8 %
Construction financing	7.4	0.5 %	40.2	2.2 %
Homburg Capital Securities A	35.4	2.4 %	1.0	0.1 %
Long term payables			10.3	0.6 %
Liabilities to be compromised - Corporate non-asset backed bonds	409.5	27.7 %		
Liabilities to be compromised - Mortgage bonds	135.4	9.2 %		
Liabilities to be compromised - Long term debt	14.7	1.0 %		
Liabilities to be compromised - Junior subordinated notes	53.4	3.6 %		
MoTo Objekt Campeon GmbH & Co KG	10.3	0.7 %		
Non-construction demand loans	5.6	0.4 %		%
Liabilities related to assets classified as held for sale	87.9	5.9 %	92.0	4.9 %
	<u>1,747.3</u>	<u>118.3 %</u>	<u>1,762.0</u>	<u>94.6 %</u>
Shareholders' equity	<u>(270.3)</u>	<u>(18.3)%</u>	<u>101.7</u>	<u>5.5 %</u>
	<u>\$ 1,477.0</u>	<u>100.0 %</u>	<u>\$ 1,863.7</u>	<u>100.2 %</u>

Long Term Debt

The debt instruments discussed below were in effect prior to the Filing Date. As a result, all actions to enforce or otherwise effect payment or repayment of liabilities of the Applicants prior to the Filing Date are stayed as of the Filing Date. Absent further order of the Court, no party

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

may take any action to recover on pre-petition claims against the Applicants. It is not possible to predict the outcome of the CCAA proceedings and the discharge of liabilities are subject to significant uncertainty.

Mortgages payable on revenue producing properties decreased by \$46.5 million during 2011. This was due to a combination of the previously discussed foreign exchange rate changes on the EUR and USD denominated debt, as well as a \$14.7 reclassification of the Prince Edward Island hotel mortgage from long term debt to liabilities subject to compromise. Mortgage principal maturities include loans of \$278.8 million which were in default of their lending covenants at December 31, 2011 and accordingly have been classified as falling due during the next year.

The mortgage bonds payable balance of \$135.4 million was reclassified from long term debt to liabilities subject to compromise as at December 31, 2011. The Mortgage Bonds are recorded at the prevailing exchange rate at December 31, 2011.

The corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral. The bonds mature between May 2013 and January 2015 and the Company has the option to redeem any series of bonds at their face amount anytime subsequent to the fifth anniversary of the issue of the bonds. The interest is payable semi-annually on June 30 and December 31. The bonds are issued in Euros and have been translated at period end exchange rates. The non-asset backed bond balance of \$409.5 million was reclassified from long term debt to liabilities subject to compromise as at December 31, 2011.

The junior subordinated notes consist of EUR €25.0 million (\$33.0 million) (December 31, 2010 - EUR €25.0 million (\$33.1 million)) and USD \$20.0 million (\$20.4 million) (December 31, 2010 - USD \$20.0 million (\$20.0 million)), and were in default of the interest coverage ratio and the net worth covenant ratio during the period ended December 31, 2011 and have been reclassified from long term debt to liabilities subject to compromise. The outstanding balances are translated at period end exchange rates.

Construction Financing

To December 31, 2011, the Company had \$7.4 million in construction financing outstanding relating to its development projects outlined earlier.

Shareholders' Equity

Homburg Invest's shareholders' equity decreased \$372.0 million from \$101.7 million at December 31, 2010 to \$(270.3) million at December 31, 2011. The decrease resulted from a \$360.3 million net loss in the period along with \$11.4 million of Other Comprehensive Loss resulting from foreign exchange movement.

The Company's US operations and European operations have a functional currency of the US dollar and Euro respectively for recording substantially all transactions. The financial statements of the Company's overseas operations are translated on consolidation to Canadian dollar equivalent amounts using the current rate method, whereby assets and liabilities are translated at period end exchange rates while revenues and expenses are converted using average translation rates for the reporting period. Gains and losses resulting from the currency translations of the subsidiaries are deferred and included in the accumulated Other Comprehensive Income (Loss) within shareholders' equity. At December 31, 2011, the cumulative loss was \$10.2 million; a decrease of \$11.4 million from the accumulated gain amount of \$1.2 million as at December 31, 2010.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL COMMITMENTS

Liquidity Risk

Liquidity risk relates to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long term debts as they come due. As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. Liquidity risk also relates to the potential for early retirement of debt. Some of the Company's debt agreements have covenants including maximum loan to value ratio, net worth, interest coverage ratio, and/or reserve account balance requirements. Certain debts were in breach of these covenants and are classified as current. Due to the filing under the CCAA, certain other debts are in default and have also been reclassified as falling due within one year. The Company does not anticipate that it will be required to make payments on these latter debts during the pendency of the CCAA proceedings. See notes 1 and 3 of the consolidated financial statements for further discussion.

The Company is significantly levered with no book equity at December 31, 2011 (debt to equity - December 31, 2010 - 16.55:1) (long term debt, construction financing, long term payables and demand loans + shareholders' equity). For the year ended December 31, 2011, Homburg Invest had total interest expense coverage from continuing operations of 0.47:1 (December 31, 2010 - 0.84:1) (calculated as property revenue, less property operating expenses and general and administrative expenses + interest expense (excluding capitalized interest)).

The following table presents the Company's contractual obligations at December 31, 2011, the majority of which are pre-petition. It is not possible to predict the outcome of the CCAA proceedings and, as such, the discharge of liabilities are subject to significant uncertainty.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

(Millions)

Contractual Obligations

Payments Due by Period

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Later year
Head and ground leases	1.8	1.8	1.4	0.6	0.2	3.4
Mortgages: Normal principal installments	14.8	15.6	14.3	12.4	11.3	
Interest	30.0	27.2	24.0	22.4	20.0	
Principal maturities	98.7	47.1	33.2	1.6	48.5	411.3
Non-construction demand loans	5.6					
Construction financing	7.4					
Derivative financial instruments	26.9					
Other current and long term payables	10.3					
Working capital deficit (i)	758.8					
Mortgage principal: covenant breach	278.8					
	1,233.1	91.7	72.9	37.0	80.0	414.7

- (i) The working capital deficit of \$758.8 million consists of cash of \$20.5 million, and current investments of \$120.2, and trade receivables of \$30.6 million, less payables of \$123.7 million, income taxes payable of \$5.5 million, related party payable of \$6.6 million, liabilities subject to compromise of \$794.4, and notes payable of \$0.2 million.

As a result of the CCAA proceedings, all actions to enforce or otherwise effect payment or repayment of liabilities arising prior to the Filing Date are stayed as of the Filing Date. Absent further order of the Court, no party may take any action to recover on pre-petition claims against the Company. It is not possible to predict the outcome of the CCAA proceedings, which renders the discharge of liabilities subject to significant uncertainty.

The Company is currently developing a restructuring plan under the supervision of the Court. Pre-petition liabilities will be dealt with in the context of the Plan.

The Company will continue to utilize the proceeds from the sale of CANMARC units (see Note 31c of the consolidated financial statements) as a source of liquidity during the CCAA proceedings. Proceeds from the sale of other assets may also provide a source of liquidity.

Interest rate risk

As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$679.5 million in fixed rate debt and \$315.5 million in floating rate debt (before deferred financing charges) including \$1.4 million in demand and short term loans which are repayable in less than one year. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €119.3 million (\$157.6 million) (December 31, 2010 - EUR €148.3 million (\$196.6 million)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the period ended December 31, 2011, the impact on the consolidated statement of loss is a loss of \$5.3 million (December 31, 2010 - loss of \$0.7 million). The Company discloses the weighted average interest rate of maturing long term debt in the consolidated financial statements. With all other variables held constant, the Company has determined that a 1% change in interest rates would result in an annualized after tax change of \$2.4 million in the Company's earnings as a result of the impact on floating rate borrowings.

Credit risk

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$13.2 million (December 31, 2010 - \$9.8 million) arises from the possibility that tenants may not fulfill their lease obligations. The Company mitigates this credit risk by performing credit checks on prospective tenants, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property revenue is earned from international, national and large anchor tenants. The Company's largest tenant represents 38.0% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75.0 million (\$99.1 million) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company seeks replacement tenants. The Company's receivables are comprised primarily of current balances owing. The Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. The remaining significant receivables consist of taxes recoverable from various government agencies and revenue from the sale of development properties. The amounts due from government agencies represent current recoverable amounts and the revenue from the sale of development properties is supported by security letters of credit issued by the purchaser.

Currency risk

Currency risk arises from assets and liabilities denominated in US dollars or Euros. The Company had established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. During the fourth quarter of 2011 the hedge became ineffective and the related foreign currency gain is now recorded in income (loss). At December 31, 2010 - EUR €234.3 million (\$310.6 million) of the Company's net investment was effectively hedged with an equal amount of Euro-denominated debt. Currency risk for other amounts denominated in US dollars and Euros is mitigated by US dollar and Euro revenue and expense streams related to property rentals. The operating results of the Company's foreign operations are translated to Canadian dollars for financial statement reporting purposes. Changes to the exchange rates during the reporting period impact those reported results. A 10% variation in exchange rates is considered to represent a reasonably possible change to existing rates.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

With all other variables held constant, the Company has determined that a 10% change:

- in the Euro exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$8.3 million and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9.2 million after income taxes; and
- in the US dollar exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$2.7 million and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1.4 million after income taxes.

The Balance Sheets of the Company's foreign self-sustaining operations are translated to Canadian dollars for financial reporting purposes using the period end exchange rate. The change in exchange rates on the net investment position of these self-sustaining foreign operations is reflected in the other comprehensive income of the Company during the period. As noted above, the Company has established an internal hedging relationship between Euro-denominated debt and net investments in self-sustaining operations. To the extent that the hedges are effective, the foreign currency gain or loss on the hedging amounts of Euro-denominated debt is reflected in Other Comprehensive Income during the period.

Concentration risk

Certain of the Company's larger investment properties are leased to single tenants, and the recovery of the carried value of these investments is dependent upon the continuation of rental income on these properties from existing or new tenants. The Company's largest single tenant represented approximately 38.0% (December 31, 2010 - 36.8%) of property revenue for the year. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The property leased to this tenant has a fair market value of \$534.1 million at December 31, 2011 (December 31, 2010 - \$592.5 million).

Environmental risk

As an owner and manager of real estate properties, the Company is subject to various United States, European and Canadian federal, provincial, state and municipal laws relating to environmental matters. These laws could hold the Company liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell its real estate or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against the Company. The Company is not aware of any material non compliance with environmental laws at any of its properties. The Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. The Company has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on its business, financial condition or results of operation.

Risks related to Creditor Protection and Restructuring

On September 9, 2011, the Company was granted an Initial Order from the Court granting the Applicants creditor protection under the CCAA. Pursuant to the Initial Order the Applicants are provided with the authority to, among other things, file with the Court and submit to their creditors a plan of compromise or arrangement under the CCAA and operate an orderly restructuring of their business and financial affairs, in accordance with the terms of the Initial Order. Furthermore, Samson Bélair/Deloitte & Touche Inc. was appointed by the Court to monitor the business and financial affairs of the Applicants and, in connection with such role, the Initial Order imposes a number of duties and functions on the Monitor, including, but not limited to, assisting the Applicants in connection with their restructuring and reporting to the Court on the state of the business and financial affairs of the Applicants and on developments in the CCAA Proceedings, as the Monitor considers appropriate.

In light of the CCAA Proceedings, it is unlikely that HII's existing Class A and Class B Shares will have any material value in, and following approval of, a restructuring plan of arrangement, and there is a significant risk such shares could be cancelled. There is also a risk that if HII fails to successfully implement a plan of arrangement within the time granted by the Court, substantially all of its debt obligations will become due and payable immediately, or subject to immediate acceleration, which would in all likelihood lead to the liquidation of the Applicants' assets.

Risks related to the implementation of the Purchase Agreement and exercise of Options granted there under

As part of the internalization of the management of the activities of HII and to facilitate the CCAA restructuring, the Purchase Agreement was entered into on November 17, 2011 (see General Developments of the Business - Purchase Agreement with HCI) and closed on February 17, 2012 (but not as to the exercise of any or all of the Options). On April 11, 2012, the Company received CCAA court approval to execute the "First option exercise". This "First option exercise" pertains to assets located in Canada, Germany and the Netherlands, and is expected to close in early May. It is the intention of the Company to complete the "Second option exercise", relating to the Baltic assets in the second quarter of 2012.

Risks related to HII's business operations

The Creditor Protection Proceedings have had a direct impact on HII's business and have compounded these risks and uncertainties. The actions and decisions of HII's creditors and other third parties with interests in the Creditor Protection Proceedings may be inconsistent with HII's plans and therefore could cause actual events to materially differ from those contemplated in the Company's statements. These risks and uncertainties could affect HII's business and operations in various ways such as having an adverse effect on HII's operations and financial condition, sales, customer relationships, employees and vendors.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

On September 12, 2011, after receiving notification of the stay being granted in Canada, the NYSE Euronext stopped trading on the Company's Class A subordinate voting shares. The NYSE Euronext transferred the shares of the Company from trading group J7 to trading group JC. The objective of this segment is to group together securities whose market and/or financial characteristics are affected by events that might disrupt their situation in an enduring way or threaten the fair, orderly and efficient operation of the market. For additional information on Special segment JC please see NYSE Euronext Rule book I 6.9 and NYSE Amsterdam notice 2011-001. After the announcement of the transfer to the new trading group JC, trading of the shares of HII on the NYSE Euronext resumed.

On September 12, 2011 the Toronto Stock Exchange suspended all trading in the Class A subordinate voting shares, and the Class B multiple voting shares of the Company subject to an expedited review with respect to the Company meeting the continued listing requirements. On September 21, 2011 the Toronto Stock Exchange announced that effective October 20, 2011 it would delist the Company's Class A subordinate voting shares and Class B multiple voting shares for failing to meet its continued listing requirements. The Company's shares will remain halted.

FINANCIAL INSTRUMENTS

The Company does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

<u>Classification</u>	<u>Subsequent Measurement</u>	<u>Carrying Value 2011</u> (Millions)	<u>Fair Value 2011</u> (Millions)	<u>Carrying Value 2010</u> (Millions)	<u>Fair Value 2010</u> (Millions)
Held for Trading					
Long term investments: others (a)	Fair value (L1)	\$ 22.0	\$ 22.0	\$ 1.6	\$ 1.6
Long term investments: HEEF B.V. (a)	Fair value (L3)	6.3	6.3	7.2	7.2
Cash and cash equivalents (b)	Fair value (L1)	20.5	20.5	13.6	13.6
Investments (b)	Fair value (L1)	120.2	120.2		
Derivative instrument liability (b)	Fair value (L2)	(26.9)	(26.9)	(21.8)	(21.8)
		<u>\$ 142.1</u>	<u>\$ 142.1</u>	<u>\$ 0.6</u>	<u>\$ 0.6</u>
Loans and Receivables					
Restricted cash (c)	Amortized cost	\$ 8.5	\$ 8.5	\$ 4.1	\$ 4.1
Receivables and other (c)	Amortized cost	31.5	31.5	36.0	36.0
		<u>\$ 40.0</u>	<u>\$ 40.0</u>	<u>\$ 40.1</u>	<u>\$ 40.1</u>
Other Financial Liabilities					
Accounts payable and other (c)	Amortized cost	\$ 147.1	● ₁	\$ 113.1	\$ 113.1
Mortgages (d)	Amortized cost	987.6	● ₁	1,034.1	1,013.0
Mortgage bonds (d)	Amortized cost	135.4	● ₁	135.8	138.0
Corporate non-asset backed bonds (d)	Amortized cost	409.5	● ₁	411.0	413.8
Junior subordinated notes (d)	Amortized cost	53.4	● ₁	53.1	75.4
Deferred financing charges (d)	Amortized cost	0.1	● ₁	(15.5)	
Construction financing (c)	Amortized cost	32.4	● ₁	40.2	40.2
		<u>\$ 1,765.5</u>	<u>\$</u>	<u>\$ 1,771.8</u>	<u>\$ 1,793.5</u>

Note 1 - The risks associated with CCAA could impact the amounts presented as Fair Value at December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.

The Company uses the following hierarchy for determining the fair value of financial instruments: Level 1 ("L1") - quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2 ("L2") - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and Level 3 ("L3") - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data. There were no transfers in or out of financial instruments classified as L3 in 2010 or 2011.

(a) Long term investments are classified as held for trading and carried at their fair values. The fair value of the Company's investment in HEEF B.V. is based on the proportionate share of the reported net asset value of the B.V.. HEEF B.V. prepares its financial statements in accordance with IFRS using the fair value model. As such, the net asset value from the financial statements of the B.V. is reflective of its fair value. Management has determined that a reasonably possible change in the assumptions used to determine the fair value of the Company's investment in HEEF B.V. would not result in a significant impact to the consolidated financial statements. The fair values of other long term investments are based on quoted market prices. A loss of \$1.5 resulting from the change in fair values of investments was recorded in the consolidated statement of loss during the year ended December 31, 2011 (2010 - gain of \$0.1 million). (see Subsequent Events later in this MD&A)

(b) Cash and cash equivalents, current investments and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$5.3 million during the year ended December 31, 2011 in the consolidated income statement (2010 - loss of \$0.7 million). A gain of \$34.0 resulting from the change in fair values of current investments was recorded in the consolidated statement of loss during the year ended December 31, 2011 (December 31, 2010 - \$NIL).

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

- (c) The Company's short term financial instruments, comprising restricted cash, trade receivables, related party receivables, notes receivable, trade payables, related party payables, notes payable, security deposits, Homburg Capital Securities A liability, and construction financing are carried at amortized cost. The carrying value of short term financial assets, due to their short term nature, approximates their fair value. The risks associated with CCAA, as outlined in Notes 1 and 3 of the consolidated financial statements could impact the amounts presented as Fair Value of financial liabilities at December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.
- (d) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes, HCSA, and long term payables. The fair values of these financial instruments were based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, that reflected current market conditions for instruments with similar terms and risks. Such fair value estimates were not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. The risks associated with CCAA, as outlined in Notes 1 and 3 of the consolidated financial statements could impact the amounts presented as Fair Value at December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.

TRANSACTIONS WITH RELATED PARTIES

The Company's direct parent is Homburg Finance A.G. which is controlled by the former Chairman and Chief Executive Officer. However, pursuant to a voting power of attorney agreement made as of September 8, 2011, each of Mr. Richard Homburg and Homburg Finance A.G. appointed Stichting Homburg Bonds and Stichting Homburg Capital Securities as attorneys (the "Trustees") to vote the Class A Shares and Class B Shares held directly or indirectly by Mr. Richard Homburg or Homburg Finance A.G., as applicable, on any resolution presented to the shareholders of HII to be voted upon at a meeting of shareholders of HII which is duly called and constituted in accordance with the *Business Corporations Act* (Alberta) and the by-laws of HII, in such a manner as the Trustees may deem appropriate.

On March 12, 2011 the Trustees transferred the voting rights of the HII shares held by Mr. Homburg and Homburg Finance A.G. to a newly independent Stichting CanTrust. This effectively separates the Trustees representation of the bond holders, from the voting control of HII.

- a) The Company has entered into agreements with companies commonly controlled by the former Chairman and Chief Executive Officer. A summary of the various transactions between related parties is as follows:

	Three Months Ended Dec 31 2011 (Thousands)	Three Months Ended Dec 31 2010 (Thousands)	Year Ended Dec 31 2011 (Thousands)	Year Ended Dec 31 2010 (Thousands)
Rental revenue earned	\$	\$ (53)	\$ (45)	\$ (482)
Interest Income	\$ (439)	\$ (147)	\$ (1,427)	\$ (574)
Management agreement termination fee (l)	\$	\$	\$	\$ 21,600
Asset and construction management fees (q)	\$ 2,161	\$ 1,855	\$ 6,474	\$ 8,440
Property management fees incurred (q)	\$ 684	\$ 1,301	\$ 2,252	\$ 4,784
Insurance costs incurred	\$ 44	\$	\$ 89	\$ 514
Service fees incurred	\$ 1,493	\$ 1,415	\$ 4,464	\$ 4,915
Property acquisition / disposal fees incurred (q)	\$	\$	\$ 1,093	\$ 1,302
Mortgage bond guarantee fees incurred (h)	\$	\$ 14,107	\$	\$ 17,134
Bond and other debt issue costs incurred	\$	\$	\$	\$ 209
Interest costs incurred (i)	\$ 34	\$ 102	\$ 140	\$ 276

- b) Included in trade payables is \$4.1 million (accounts payable - December 31, 2010 - \$0.4 million) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- c) Included in restricted cash and accounts payable is a deposit on a condominium unit of \$0.4 million (December 31, 2010 - \$0.4 million) from the former Chairman and Chief Executive Officer. The unit will be purchased at market prices.
- d) The Company had approved a resolution authorizing the property manager, a company commonly controlled by the former Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the Company. This agreement was terminated July 29, 2011.
- e) Professional services of approximately \$0.3 million (December 31, 2010 - \$0.3 million) were purchased from a corporation of which one of the Company's former directors is affiliated.
- f) Included in accounts payable and other liabilities is \$6.6 million (December 31, 2010 - \$21.9 million) with companies commonly controlled by the former Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
- g) Included in accounts receivable is \$1.1 million (December 31, 2010 - \$NIL) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- h) In 2010 the Company ended a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the former Chairman and Chief Executive Officer, wherein it was protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum was 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. During 2010 this contract was cancelled, thus eliminating the Company's liability for \$13.4 million, representing an approximate discount

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

of 30% from the book value of the liability. The discount of \$4.9 million was credited to contributed surplus.

- i) Included in non-construction demand loans is a promissory note payable in the amount of EUR €4.2 million (\$5.6 million) (December 31, 2010 - EUR €6.3 million (\$8.3 million)). This amount relates to the Company's investment in Homburg Eastern European Fund B.V. The note bears interest at 6.0% per annum and has no specific repayment terms. (see Subsequent Events later in this MD&A)
- j) The Company has entered into head leases (the "Head Leases") with CANMARC. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$1.6 million. The head leases commenced on May 25, 2010 and June 30, 2011 and have five and three year terms subject to certain rights of termination upon third party leasing of such space. The Company has \$1.5 million included in property operating expenses for the period ended December 31, 2011.

The Company has pledged and hypothecated in favour of CANMARC, Units having an aggregate value of approximately \$14.4 million as collateral for its obligations under the Head Leases (the "Head Lease Pledge"), and Units having an aggregate value of approximately \$6.6 million as collateral for certain of its obligations in connection with remediation costs, if any, on certain income producing properties (the "Remediation Cost Pledge"). The number of Units pledged under the Head Lease Pledge reduces annually by 1/5 of the number of Units pledged. The number of Units pledged under the Remediation Cost Pledge will be reduced from time to time upon payment by the Company to CANMARC of any portion of the remediation costs, if any, it being understood that for each \$10 of the total remediation cost paid to CANMARC, the number of Units pledged under the Remediation Cost Pledge will be reduced by one Unit. Upon payment of the full Remediation Cost, the Company will be fully discharged of its obligations under the Remediation Cost Pledge and any remaining Units will be released from the Remediation Cost Pledge. Subsequent to year end the Company sold its units in CANMARC, CANMARC currently holds the cash in trust in the amount of \$21,330, representing the net cash proceeds of the 1.3 million of Units sold related to the Headlease Pledge and Remediation Cost Pledge.

- k) The Company has entered into a ground lease with CANMARC for a term of 25 years, with an option to renew for up to 3 additional periods of 25 years each. The annual minimum rent payable for the ground lease is \$0.2 million. The Company has \$0.2 million included in property operating expenses for the period ended December 31, 2011.
- l) As part of the CANMARC launch by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized within CANMARC. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of \$21.6 million provided for under the agreement, effective February 25, 2010 and this amount has been included in the loss from discontinued operations.
- m) During the previous year the Company sold its 50% interest in Homburg SNS Property Finance Limited Partnership to a company commonly controlled by the former Chairman and Chief Executive Officer for \$7.4 million in notes receivable. As a result of the valuations performed in relation to the settlement agreement described in note 25 (p) of the consolidated financial statements this Note was written off at December 31, 2011.
- n) On June 27, 2011, CANMARC acquired from CP Developments Ltd., a wholly owned subsidiary of the Company, the three existing office buildings that currently comprise the Centron Park Complex in Calgary's suburban south district, and an interest in lands by way of a purchase option providing CANMARC with the right to acquire the four remaining buildings of the complex, as developed. The gross purchase price for the existing buildings and the purchase option was \$39.7 million, excluding closing and transaction costs. CANMARC has a right of first refusal to purchase the remaining properties under development.
- o) Compensation of directors and senior management

The Company had certain management agreements with a related party and did not directly employ any key management employees throughout 2010 and up to July 29, 2011. The management agreement was terminated on July 29, 2011 and the Company internalized all employees. Compensation for directors and senior management including the CEO and CFO was as follows from July 29, 2011:

	<u>2011</u>	<u>2010</u>
Short term employee benefits	\$ <u>2.9</u>	\$ <u> </u>

The amount is recognised as an expense during the reporting period related to senior management and directors.

- p) During the 4th quarter the Company entered into an agreement with Homburg Canada Inc. that was closed in the first quarter of 2012. (See Subsequent Events section). This agreement provides that the Company will acquire from HCI the real estate management business activities carried on by HCI with respect to the properties owned by the Company in Europe (other than those located in the Baltics), and certain related assets. The Agreement also settles the claim for damages received from HCI totalling approximately \$27.3 million further to the termination by the Company of the master property and asset management agreement between the Company and certain outstanding intercompany payables owing to HCI. The Agreement also provides HII with options more fully described in the Subsequent Events section. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by a cash payment of \$10.5 million and other consideration. The Company has accrued and expensed \$7.5 million at December 31, 2011 in respect of the termination claim from HCI. This transaction was reviewed by the monitor, approved by the court and deemed to be beneficial to the Company.
- q) **Property and Asset Management Service Fees**
 The Company has entered into a Property and Asset Management Agreement, initially set to expire on June 30, 2016, with a company commonly controlled by the former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

Property Management Service Fees

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) were in place, the Manager did not receive any property management fees;
- (ii) For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases were not in place, fees were a percentage of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties;
- (iii) For investment properties situated in Europe where Single Tenant Triple Net Leases were not in place, fees were a percentage of annual rents as generated by the Properties;
- (iv) Construction supervision fees equal to 10% of the gross value (net of taxes) of the cost of construction or related construction contracts. Gross costs included the total hard and soft costs (including interest), but excluded land cost. The Manager was responsible for, including but not limited to, project management and all third party costs for construction management and other related costs; and
- (v) Leasing fees equal to 10% of the first year net revenue for leases with a term of less than two years, 15% of the first year net revenue for leases of three to four years and 20% of the first year net revenue for leases of five years or longer. The Manager was to pay out of the applicable Owner's funds, mortgage payments, taxes, assessments, premiums on insurance and all other payments related to the operation of the Properties.

Asset Management Service Fees

- (vi) For investment properties situated in Canada or the United States, annual fees of 0.30% of the total asset base, calculated on the quarterly basis for properties where Single Tenant Triple Net Leases (as such term is defined above) were in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where Single Tenant Triple Net Leases (as such term is defined above) were not in place;
- (vii) For investment properties situated in Europe, annual fees of 0.20% of the total asset base, calculated on a quarterly basis;
- (viii) Share issue fees of 5% of the total gross proceeds raised in share issues of HII, provided that the Manager assumed all costs related to such share issues (including selling commissions payable to intermediaries, legal fees, marketing expenses, travel expenses and additional out-of-pocket expenses). No fees were payable by HII to the Manager with respect to shares issued to a vendor of a property acquired by HII or private placements to related parties; and
- (ix) Acquisition and disposition fees of 2.5% of the total acquisition or disposition price of the relevant property, provided however that, (i) in the context of a series of transactions forming part of the same transaction, the 2.5% fee is only payable once based on the total acquisition or disposition price, as the case may be; and (ii) the Manager was not entitled to be reimbursed for any due diligence or execution costs relating to any acquisitions or dispositions, whether successful or unsuccessful, including legal, accounting, financial advisory and brokerage services as well as travel expenses and the cost of obtaining structural, environmental, title, and appraisal reports.

On July 29, 2011 the Company terminated the Property and Asset Management Agreement described above and subsequently entered into a Property and Asset Management Agreement, with companies commonly controlled by the former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis in the Netherlands, Germany and the Baltics. These contracts automatically renew on a three month basis and can be cancelled with written notice within 30-45 days. Subsequent to year end, upon successful closing of the agreement between the Company and Homburg Canada Inc., the property management office in the Netherlands that services the Netherlands and Germany properties was purchased by the Company and internalized.

Property Management Service Fees

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) were in place, the Manager did not receive any property management fees;
- (ii) For investment properties situated in Europe, deemed to be producing a positive cash flow and where Single Tenant Triple Net Leases were not in place, fees were a percentage of annual rents as generated by the Properties;
- (iii) For investment properties situated in Europe, not deemed to be producing a positive cash flow and where Single Tenant Triple Net Leases were not in place, fees were a fixed monthly amount;

Asset Management Service Fees

- (iv) For investment properties situated in Europe, deemed to be producing a positive cash flow, annual fees of 0.20% of the total fair market value, calculated on a quarterly basis;

Related party transactions are recorded at their exchange amounts, being the amounts agreed to by the related parties.

SUBSEQUENT EVENTS

a) On March 16, 2012 the Court extended the CCAA stay period to May 31, 2012.

b) Subsequent to year end, the Company closed the previously announced Purchase Agreement between Homburg Invest Inc., and Homburg Canada Inc. ("HCI"). The agreement provides that the Company will acquire from HCI the Purchased Management Business and all related assets owned or used or held by HCI, or its affiliates, which relate to the Purchased Management Business. The closing also settles the claim for damages received from HCI totaling approximately \$27.3 million further to the termination by the Company of the master property and asset management agreement and certain outstanding intercompany payables owing to HCI. The Purchase Agreement also provides the granting to the Company of options (the "Options") to obtain, directly or indirectly, title to the shares of Homburg L.P. Management Inc ("HLPM") being the general partner of certain of the Company's limited partnership investments and the option to require the resignation of HLPM as general partner of any or all Partnerships, which options shall be exercised in a time and manner subject to the approval of the Court

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

and the Monitor. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by a cash payment of \$10.5 million and other consideration. The initial installment of \$3.5 million was paid on closing which occurred on February 17, 2012 and the second installment of \$3.5 million was paid on April 17, 2012.

On April 11, 2012, the CCAA Court granted approval for the Company to take the necessary steps to implement the execution of the previously discussed options pertaining to all assets other than those in the Baltics. The Company expects to complete this First Option Exercise in the second quarter of the year.

c) Subsequent to year end, the Company has disposed of the 8.8 million units of CANMARC REIT it held, representing a 16.1% interest. The net proceeds to the Company were \$144.4 million. \$21.1 million of these funds were placed in trust to replace the 1.3 million units of CANMARC REIT previously held to secure the headlease and remediation obligations of the Company, \$107.3 million is in trust per CCAA Court Order, and a total of \$16.0 million has been released to the Company per approved CCAA Court Order in two separate tranches of \$10.0 and 6.0 million respectively.

d) Subsequent to year end the Company signed a new financing agreement with a lender for approximately EUR €37.5 million of debt which matured in February 2012. The new financing agreement requires the Company to acquire the remaining 6.63% in its largest asset, the Infineon Campus in Munich, Germany by May 31, 2012. In addition, the agreement requires the entity holding this asset to use any of its cash flow surplus to reimburse the balance of the outstanding loan. As a result, this cash flow surplus will not be available to the Company.

e) Subsequent to year end, the option by which the Company will acquire the remaining 6.63% of its largest asset, the Infineon Campus in Munich, Germany was extended to May 31, 2012. It is the Company's intent, subject to Monitor and if necessary CCAA court approval, to acquire the remaining interest. The necessary financing has been arranged to fund the required EUR €7.8 million.

f) Subsequent to year end the Company sold 18 of the Inverness condominium units for \$3,195. As well the Court approved a bulk sale deal for the remaining 23 Inverness condominium units for \$3,840. The closing on the bulk deal is scheduled to occur during Q2 of 2012. The proceeds from the sale will be utilized to reduce secured debt.

g) Subsequent to year end the Company has agreed to surrender its investment in HEEF in the amount of \$6.3 million (EUR €4.7 million), to satisfy the remaining amount due by the Company to HEEF of \$5.6 million (EUR €4.2 million). Should the amount recovered by the sale of the units be insufficient to recover the amount owed by the Company, there may be an additional claim that would be subject to the CCAA proceedings.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

i) **Operating lease commitments - Company as lessor.**

The Company has entered into commercial and residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

ii) **Consolidation and proportionate consolidation of Limited Partnerships (L.P.'s).**

A large portion of the Company's investment properties are held in L.P.'s. In certain of these L.P.'s, the Company is the sole limited partner and it has been determined that the Company is able to exercise full control. Accordingly, these entities are consolidated. In other partnerships, the Company's share is less than 100%. HLP, a company directly and indirectly controlled by the former Chairman and CEO, acts as the general partner in all partially owned L.P.'s, except the Cedar joint venture in which the general partner is related to the minority limited partner. The Company has concluded that it is able to exercise joint control over all entities which are less than 100% owned, primarily established by terms which require the unanimous consent of all partners for major partnership decisions. Accordingly, these entities are proportionately consolidated.

Estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

i) **Valuation of investment properties.** Investment properties comprises real estate (land or buildings or both) held by the Company in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business. Investment properties are presented at fair value at the reporting date. Any change in fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. Management's internal assessments of fair value are based upon internal financial information and are corroborated by capitalization and discount rates obtained from independent industry experts. Management's internal valuations and independent appraisal values obtained are both subject to significant judgment, estimates and assumptions about market conditions in effect at the reporting date.

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

- ii) Valuation of investment properties under development. Investment properties being constructed or developed are carried at fair value, to the extent that fair value is reliably determinable, with changes in fair value recognized in the Consolidated Income Statement. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. The fair value of land to be developed for future use as an investment property is based on recent comparable market transactions, plus costs incurred that enhance the land value.
- iii) Valuation of properties under development for resale. Properties under development for resale are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. Estimated selling prices are supported by recent comparable market transactions.
The Company's determination of fair values and net realizable value for investment properties, properties under development and properties under development for resale assumes the Company will operate in the normal course of business and do not reflect forced liquidation sale assumptions. Should the Company have to sell property on a forced or liquidation basis, the amounts that could be realized could differ materially from the Company's fair value and net realizable value estimates.
- iv) Income taxes. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In addition, the Company operates in a number of jurisdictions and its legal structure is complex. The computation of the Company's income tax provision and deferred tax balances involves many factors including interpretation of relevant tax legislation in each of the jurisdictions in which the Company operates. When applicable, the Company adjusts the previously recorded tax provision and associated tax assets and liabilities to reflect changes in estimates and for any tax assessments levied.
- v) Fair value of financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
- vi) Provisions. The Company has entered into certain operating lease commitments with respect to head leases which are potentially onerous, depending on the Company's ability to recover its obligations through sub-leases with sub-tenants. The Company estimates the amounts it may be able to recover using current market data concerning leasing rates and tenant incentives and estimates of time expected to sub-lease any vacant space. Changes in assumptions about these factors could affect the reported amount of provisions. Due to the CCAA filing and the resiliation of certain leases, a portion of the provision amount is now considered an estimate of the counterparty's probable termination claim against the company and has been reclassified to Liabilities subject to compromise in the consolidated financial statements.

These estimates and assumptions result from the application of judgment and therefore are subject to uncertainty. The Company monitors these estimates and assumptions on a continual basis.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year.

Future accounting standards and interpretations

The Company is evaluating the possible impact of a number of standards and interpretations issued by the IASB with an effective date after the date of these consolidated financial statements. The following sets out only those items which may have a material impact on the Company's consolidated financial statements in future periods.

IFRS 7 Financial Instruments Disclosure

IFRS 7 was issued by the IASB on October 7, 2010 and contains amendments to the existing IFRS 7. The amendments to IFRS enhances disclosure requirements about transfers of financial assets. The amendments of IFRS 7 are effective for annual periods beginning on or after July 1, 2011.

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amount, timing and uncertainty of an entity's future cash flows. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements

On May 12, 2011 the IASB issued IFRS 10, which will replace IAS 27, Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The new standard provides a single model for consolidation based on control, which exists when an investor is exposed or has the right to variable returns from its involvement with the investee and has the current ability to affect those returns through its power over the investee. The standard also provides guidance on how to evaluate power and requires that control is assessed as facts and circumstances change. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IFRS 11 Joint Arrangements

On May 12, 2011, IASB issued IFRS 11. The new standard replaces IAS 31, Interest in Joint Ventures. The new standard eliminates the option to proportionately consolidate interests in certain types of joint ventures. This may impact the jointly controlled entities which the

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

Company currently proportionality consolidated under IFRS. The new standard will be effective for the Company's year end beginning January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

IFRS 12 Disclosure of Interests in Other Entities

The IASB issued IFRS 12 on May 12, 2011. The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity and is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is permitted or required by IFRS. The standard also requires enhanced disclosures when fair value is applied. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

IAS 12 Deferred Tax: Recovery of Underlying assets

In December 2010, the IASB made amendments to IAS 12, Income Taxes that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40, Investment Property. The amendments introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The Company has not yet determined the impact of the amendments to IAS 12 on its financial statements.

IAS 1 Presentation of Financial Statements

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements. The amendments to IAS 1 retain the "one or two statement" approach to presenting the Statements of Income and Comprehensive Income at the option of the entity and only revise the way other comprehensive income is presented. This amended standard is effective for annual periods beginning on or after July 1, 2012. The Company is assessing the impact of this new standard on its consolidated financial statements.

IAS 28 Investments in Associates and Joint Ventures

In May 2011, the IASB amended IAS 28, Investments in Associates and Joint Ventures, previously IAS 28, Investment in Associates. The amended IAS 28 sets out the accounting for investments in associates and the requirements for application of the equity method when accounting for investments in associates and joint ventures. The Company is assessing the impact of this new standard on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to senior management to ensure appropriate and timely decisions are made regarding public disclosure. The Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), has designed internal controls over financial reporting (as defined in the Canadian Securities Administrator's National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS).

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Over Financial Reporting - Guidance for Smaller Public Companies. Based on these evaluations, Management, including the CEO and CFO conclude that up to September 30, 2011:

- (i) Disclosure controls and procedures were effective to provide reasonable assurance that material information was made known to Management and information required to be disclosed by the Company in its annual filings, interim filings and other reports filed by the Corporation under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.
- (ii) Internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

MATERIAL CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

On September 9, 2011, the Company commenced CCAA proceedings. In connection with this event, during the fourth quarter of 2011, management introduced processes to:

- (1) determine pre- and post-petition liabilities and identify those liabilities subject to compromise;
- (2) assess certain claims received from creditors; and
- (3) determine the proper accounting treatment for contracts, liabilities and operating expenses, including expenses related to the CCAA filings.

Given the multiple-jurisdiction element of its operations, complexities exist in introducing and maintaining such processes. More particularly, as a result of the significant complexities involved, the Company was unable to maintain effective processes and controls over the accounting for and reporting of complex and non-routine transactions as they relate to the CCAA proceedings. This has resulted in the identification of a significant deficiency in its internal controls over financial reporting in the fourth quarter of 2011, and the Company has concluded that those controls were not effective as of December 31, 2011. As a result, the Company has concluded that its disclosure controls and procedures

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Year Ended December 31, 2011

were not effective as of December 31, 2011. This deficiency resulted in certain adjustments to the amounts and disclosures in the consolidated financial statements.

Management continues to take actions necessary to address the resources, processes and controls related to these changes. Additional process changes may be necessary in the future.

During the period, two directors had resigned from the Board of Directors and the Board of Directors now consists of six directors, of which five are independent. As well, the Company has migrated its financial data onto a server which it now exercises complete authority over.

OTHER REQUIREMENTS

- (a) Additional information relating to Homburg Invest, including our Annual Information Form (AIF) is on our website at www.homburginvest.com and at SEDAR at www.sedar.com.
- (b) The Company continues to prepare its financial statements in accordance with International Financial Reporting Standards and makes its financial statements available at SEDAR at www.sedar.com.
- (c) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at December 31, 2011, Homburg Invest was authorized to issue an unlimited number of Class A Subordinate Voting Shares, an unlimited number of Class B Multiple Voting Shares and an unlimited number of Class A and B preferred shares, issuable in series, with rights and privileges to be determined upon issue. On that date, 17,034,488 Class A Subordinate Voting Shares and 3,104,839 Class B Multiple Voting Shares were issued for a recorded value of \$700.4 million.

2012 OUTLOOK AND PROPOSED TRANSACTIONS

The Company has objected to the decision of the Authority for the Financial Markets in the Netherlands ("AFM") to withdraw Homburg Invest's licence as an investment company. Homburg Invest has now made formal written submissions to the AFM requesting that the AFM reconsider its decision to revoke Homburg Invest's licence. Homburg Invest has emphasized that maintaining its licence will allow it to consider the widest number of potential alternatives for creditors, including bondholders, as part of the restructuring process. Maintaining the licence is important in that it would allow Homburg Invest to issue new equity in the Netherlands as part of the restructuring process. The Monitor is supporting Homburg Invest's initiatives in this regard.

On April 11, 2012, the Company received CCAA court approval to execute the "First option exercise". This "First option exercise" pertains to assets located in Canada, Germany and the Netherlands, and is expected to close in early May. It is the intention of the Company to complete the "Second option exercise", relating to the Baltic assets in the second quarter of 2012.

The Company, in consultation with the Monitor, will develop a Plan for the Company that will then be submitted to the affected creditors for approval, prior to being submitted to the Court for final approval.

"Signed"
Jan Schöningh, MBA
President and CEO

"Signed"
James F. Miles, CA
Vice President and CFO

Form 52-109F1
Certification of Annual Filings - Full Certificate

I, Jan Schöningh, President and Chief Executive Officer of Homburg Invest Inc., certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of Homburg Invest Inc. (the “issuer”) for the financial year ended December 31, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* published by The Committee of Sponsoring Organizations of the Treadway Commission.
- 5.2 **ICFR – material weakness relating to design:** The issuer has disclosed in its annual MD&A for each material weakness relating to design existing at the financial year end
 - (a) a description of the material weakness;

- (b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and
- (c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 N/A

6. **Evaluation:** The issuer's other certifying officer and I have

- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
- (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
 - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
 - (ii) N/A.

7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2011 and ended on December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: April 30, 2012

(signed) Jan Schöningh

Jan Schöningh

President and Chief Executive Officer of Homburg Invest Inc.

Form 52-109F1
Certification of Annual Filings - Full Certificate

I, James F. Miles, Chief Financial Officer of Homburg Invest Inc., certify the following:

1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the “annual filings”) of Homburg Invest Inc. (the “issuer”) for the financial year ended December 31, 2011.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.
4. **Responsibility:** The issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer and I have, as at the financial year end
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s GAAP.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* published by The Committee of Sponsoring Organizations of the Treadway Commission.
- 5.2 **ICFR – material weakness relating to design:** The issuer has disclosed in its annual MD&A for each material weakness relating to design existing at the financial year end
 - (a) a description of the material weakness;

- (b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and
- (c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 N/A

6. **Evaluation:** The issuer's other certifying officer and I have

- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusions about the effectiveness of DC&P at the financial year end based on that evaluation; and
- (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A
 - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
 - (ii) N/A.

7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2011 and ended on December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of ICFR, to the issuer's auditors, and the board of directors or the audit committee of the board of directors any fraud that involves management or other employees who have a significant role in the issuer's ICFR.

Date: April 30, 2012

(signed) James F. Miles

James F. Miles

Chief Financial Officer of Homburg Invest Inc.