

**Homburg Invest Inc.**  
**Interim Condensed 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)**  
**(Unaudited - Prepared by Management)**

**June 30, 2012**

The interim condensed consolidated financial statements for the three and six months ended June 30, 2012 and June 30, 2011 have not been reviewed by the Company's external auditors.

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

(CAD \$ thousands except per share amounts)	Note	June 30 2012	December 31 2011
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties		\$ 1,090,479	\$ 1,224,291
Investment properties under development		141,310	143,768
Investments, at fair market value	7	7,365	28,278
Restricted cash		126,224	8,514
Deferred tax assets	11	35	950
		<u>1,365,413</u>	<u>1,405,801</u>
<b>Current assets</b>			
Cash and cash equivalents		11,822	20,523
Investments, at fair market value	7		120,222
Properties under development for resale		16,915	26,487
Receivables and other	6	<u>32,638</u>	<u>31,472</u>
		61,375	198,704
Assets classified as held for sale	12	<u>116,247</u>	<u>123,742</u>
		<u>177,622</u>	<u>322,446</u>
<b>Total assets</b>		<b><u>\$ 1,543,035</u></b>	<b><u>\$ 1,728,247</u></b>
<b>Equity and Liabilities</b>			
<b>Total equity</b>	14	<b><u>\$ (389,452)</u></b>	<b><u>\$ (270,349)</u></b>
<b>Non-current liabilities</b>			
Long term debt	10	485,317	595,324
Deferred tax liabilities	11	19,442	22,152
Provisions		<u>708</u>	<u>869</u>
		<u>505,467</u>	<u>618,345</u>
<b>Current liabilities</b>			
Accounts payable and other liabilities	9	43,128	62,210
Income taxes payable		5,581	5,491
Construction financing			7,414
Current portion of long term debt	10	453,307	392,343
Provisions		2,607	3,624
Derivative financial instruments	17	30,771	26,850
Liabilities subject to compromise	13	<u>808,504</u>	<u>794,383</u>
		1,343,898	1,292,315
Liabilities associated with assets classified as held for sale	12	<u>83,122</u>	<u>87,936</u>
		<u>1,427,020</u>	<u>1,380,251</u>
<b>Total liabilities</b>		<b><u>1,932,487</u></b>	<b><u>1,998,596</u></b>
<b>Total equity and liabilities</b>		<b><u>\$ 1,543,035</u></b>	<b><u>\$ 1,728,247</u></b>
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Approved by the Board, August 31, 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)**  
**Interim Consolidated Statements of Loss**  
**Three and Six Months Ended June 30**  
**(Unaudited - Prepared by Management)**

(CAD \$ thousands except per share amounts)	Note	Three Mos. Ended June 30 2012	Three Mos. Ended June 30 2011 Restated (Note 5)	Six Mos. Ended June 30 2012	Six Mos. Ended June 30 2011 Restated (Note 5)
Property revenue	21	\$ 30,443	\$ 31,888	\$ 61,449	\$ 64,166
Sale of properties developed for resale		<u>6,189</u>	<u>3,230</u>	<u>10,977</u>	<u>4,969</u>
<b>Total revenues</b>		<u><b>36,632</b></u>	<u><b>35,118</b></u>	<u><b>72,426</b></u>	<u><b>69,135</b></u>
Property operating expenses	21	5,470	6,723	11,319	13,189
Cost of sale of properties developed for resale		<u>6,682</u>	<u>3,241</u>	<u>11,779</u>	<u>4,511</u>
		<u><b>12,152</b></u>	<u><b>9,964</b></u>	<u><b>23,098</b></u>	<u><b>17,700</b></u>
<b>Gross income from operations</b>		<b>24,480</b>	25,154	<b>49,328</b>	51,435
General and administrative		(3,480)	(4,377)	(7,477)	(8,361)
Expenses relating to CCAA filings		(6,974)		(15,212)	
Stock based compensation			(10)	(8)	(20)
Other income		150	81	133	207
Dividend income		23	3	46	14
Share of income (loss) of an associate	8		2,935		(6,685)
Gain (loss) on sale of investments		(3)		4,414	
Impairment on properties under development for resale		424		(242)	
Net adjustment to fair value of:					
Investment properties		(102,334)	(12,808)	(108,254)	2,881
Investment properties held for sale				(59)	(124)
Investment properties under development		(7,460)	(14,160)	(938)	(13,175)
Held for trading financial assets	7, 17	(41)	(114)	52	(1)
Derivative financial instruments	17	(3,711)	(2,242)	(4,618)	3,396
Interest expense	9,10	(13,794)	(25,225)	(29,622)	(49,871)
Interest expense on liabilities subject to compromise	13	(12,810)		(25,681)	
Foreign exchange gain (loss)		21,178	(7,814)	16,527	(17,970)
Net gain on closing of HCI settlement agreement	18m			7,698	
Change in provision			(1,647)		(1,647)
Loss from continuing operations before income taxes		<u>(104,352)</u>	<u>(40,224)</u>	<u>(113,913)</u>	<u>(39,921)</u>
Income tax expense (recovery)	11	<u>(1,514)</u>	<u>(215)</u>	<u>680</u>	<u>1,250</u>
<b>Net loss from continuing operations</b>		<u><b>(102,838)</b></u>	<u><b>(40,009)</b></u>	<u><b>(114,593)</b></u>	<u><b>(41,171)</b></u>
Net income (loss) from discontinued operations after tax	12	<u>(438)</u>	<u>502</u>	<u>(540)</u>	<u>317</u>
<b>Net loss</b>		<u><b>\$ (103,276)</b></u>	<u><b>\$ (39,507)</b></u>	<u><b>\$ (115,133)</b></u>	<u><b>\$ (40,854)</b></u>
<b>Earnings (loss) per share</b>	15				
Per Class A Subordinate Voting Share and Class B Multiple Voting Share:					
Basic and Diluted					
Net loss from continuing operations		<u>\$ (5.11)</u>	<u>\$ (2.02)</u>	<u>\$ (5.69)</u>	<u>\$ (2.13)</u>
Net income (loss) from discontinued operations		<u>\$ (0.02)</u>	<u>\$ 0.02</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>
Net loss per share		<u><b>\$ (5.13)</b></u>	<u><b>\$ (2.00)</b></u>	<u><b>\$ (5.72)</b></u>	<u><b>\$ (2.11)</b></u>

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

**Homburg Invest Inc.**  
**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)**  
**Interim Consolidated Statements of Comprehensive Loss**  
**Three and Six Months Ended June 30**  
**(Unaudited - Prepared by Management)**

(CAD \$ thousands except per share amounts)	Note	Three Mos. Ended June 30 2012	Three Mos. Ended June 30 2011 Restated (Note 5)	Six Mos. Ended June 30 2012	Six Mos. Ended June 30 2011 Restated (Note 5)
<b>Net loss</b>		<b>\$ <u>(103,276)</u></b>	<b>\$ <u>(39,507)</u></b>	<b>\$ <u>(115,133)</u></b>	<b>\$ <u>(40,854)</u></b>
Other comprehensive income (loss):					
Unrealized foreign currency translation gain (loss)		<b>(3,600)</b>	9,076	<b>(3,280)</b>	21,109
Deferred income tax (expense) recovery	11,14	<u>(526)</u>	<u>(3,791)</u>	<u>(698)</u>	<u>(5,085)</u>
		<u>(4,126)</u>	<u>5,285</u>	<u>(3,978)</u>	<u>16,024</u>
Foreign currency loss on financial instruments designated as hedges of self sustaining foreign operations		<u>                    </u>	<u>(8,099)</u>	<u>                    </u>	<u>(18,684)</u>
<b>Other comprehensive loss</b>	14	<u>(4,126)</u>	<u>(2,814)</u>	<u>(3,978)</u>	<u>(2,660)</u>
<b>Comprehensive loss</b>		<b>\$ <u>(107,402)</u></b>	<b>\$ <u>(42,321)</u></b>	<b>\$ <u>(119,111)</u></b>	<b>\$ <u>(43,514)</u></b>

**Homburg Invest Inc.**  
**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)**  
**Interim Consolidated Statements of Changes in Equity**  
**Three and Six Months Ended June 30**  
**(Unaudited - Prepared by Management)**  
(CAD \$ thousands except per share amounts)

	Other Paid In Capital	Share Capital	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total
<b>December 31, 2010</b>	<b>29,171</b>	<b>701,034</b>	<b>19,597</b>	<b>1,190</b>	<b>(649,316)</b>	<b>101,676</b>
Comprehensive loss (restated Note 5)				(2,660)	(40,854)	(43,514)
Homburg Capital Securities A (Note 14d)	804				(1,698)	(894)
Acquisition & cancellation of own shares (Note 14b and c)		(631)	531			(100)
Stock based compensation			20			20
<b>June 30, 2011</b>	<b>29,975</b>	<b>700,403</b>	<b>20,148</b>	<b>(1,470)</b>	<b>(691,868)</b>	<b>57,188</b>
Comprehensive loss (restated Note 5)				(8,752)	(319,452)	(328,204)
Homburg Capital Securities A (Note 14d)	(29,975)				30,633	658
Stock based compensation			9			9
<b>December 31, 2011</b>		<b>700,403</b>	<b>20,157</b>	<b>(10,222)</b>	<b>(980,687)</b>	<b>(270,349)</b>
Comprehensive loss				(3,978)	(115,133)	(119,111)
Stock based compensation			8			8
<b>June 30, 2012</b>	<b>\$</b>	<b>\$ 700,403</b>	<b>\$ 20,165</b>	<b>\$ (14,200)</b>	<b>\$(1,095,820)</b>	<b>\$ (389,452)</b>

**Homburg Invest Inc.**  
**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)**  
**Interim Consolidated Statements of Cash Flows**  
**Three and Six Months Ended June 30**  
**(Unaudited - Prepared by Management)**

(CAD \$ thousands except per share amounts)	Note	Three Mos. Ended June 30 2012	Three Mos. Ended June 30 2011 Restated (Note 5)	Six Mos. Ended June 30 2012	Six Mos. Ended June 30 2011 Restated (Note 5)
<b>Cash obtained from (used in)</b>					
<b>Operating activities</b>					
Net loss from continuing operations		\$ (102,838)	\$ (40,009)	\$ (114,593)	\$ (41,171)
Items not affecting cash:					
Loss (gain) on sale of investments	3	3		(4,414)	
Fair market value changes on:					
Investment properties		102,334	12,808	108,254	(2,881)
Investment properties held for sale				59	124
Investment properties under development		7,460	14,160	938	13,175
Impairment loss on properties under development		(424)		242	
Change in provisions			1,647		1,647
Rent paid on provisions		329		742	
Loss (gain) on derivative instruments		3,711	2,242	4,618	(3,396)
Distribution income from associate			2,805		6,007
Amortization of financing fees		602	1,176	604	2,518
Loss (income) from associate			(2,935)		6,685
Deferred rental (income) loss		(48)	(13)	(59)	124
Deferred income taxes		(2,989)	(1,694)	(2,493)	(1,799)
Stock based compensation			10	8	20
Fair value change in financial assets		41	114	(52)	1
Foreign exchange (gain) loss		(21,178)	7,814	(16,527)	17,970
		(12,997)	(1,875)	(22,673)	(976)
Change in non-cash working capital and other	16	11,520	(2,952)	20,325	57
Net cash used in continuing operations		(1,477)	(4,827)	(2,348)	(919)
Net cash from discontinued operations	12	998	669	1,406	295
<b>Net cash used in operating activities</b>		<u>(479)</u>	<u>(4,158)</u>	<u>(942)</u>	<u>(624)</u>
<b>Investing activities</b>					
Investment in investment properties		(1,073)	(550)	(1,349)	(781)
(Increase) decrease in restricted cash		17,495	(13,443)	(117,710)	(13,780)
Proceeds on sale of development properties			39,703		39,703
Proceeds on sale of investments				145,439	27,360
Investment in development properties		(455)	(13,099)	(590)	(29,522)
Discontinued operations	12	284	29	5,877	(124)
<b>Net cash from investing activities</b>		<u>16,251</u>	<u>12,640</u>	<u>31,667</u>	<u>22,856</u>
<b>Financing activities</b>					
Increase (decrease) in demand loans		(58)	188	108	(1,383)
Decrease in mortgages payable		(14,454)	(7,375)	(25,920)	(14,091)
Increase (decrease) in related party		(7,596)	(1,039)	(9,184)	622
Increase (decrease) in deferred financing charges			(133)	599	(203)
Repurchase of common shares and issue costs					(100)
Decrease in construction financing		(107)	(6,910)	(268)	(7,394)
Discontinued operations	12	(611)	(331)	(4,761)	(3,151)
<b>Net cash used in financing activities</b>		<u>(22,826)</u>	<u>(15,600)</u>	<u>(39,426)</u>	<u>(25,700)</u>
<b>Decrease in cash</b>		<u>(7,054)</u>	<u>(7,118)</u>	<u>(8,701)</u>	<u>(3,468)</u>
Cash, beginning of period		18,876	17,267	20,523	13,617
<b>Cash, end of period</b>		<u>\$ 11,822</u>	<u>\$ 10,149</u>	<u>\$ 11,822</u>	<u>\$ 10,149</u>

Supplemental cash flow information

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## Homburg Invest Inc.

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

### Notes to Interim Condensed Consolidated Financial Statements

June 30, 2012 and 2011

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 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 pursuant to the initial order (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 of which, pursuant to subsequent orders of the Court rendered on October 7, 2011, December 8, 2011, March 16, 2012, May 31, 2012 and August 24, 2012, was extended respectively to December 9, 2011, March 16, 2012, May 31, 2012, August 31, 2012 and September 14, 2012. The stay period is subject to further extensions as the Court may deem appropriate.

The unaudited interim condensed consolidated financial statements do not purport to reflect or provide for the consequences of the CCAA proceedings. In particular, such unaudited interim condensed 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 CCAA 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 CCAA 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 CCAA 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 unaudited interim condensed 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 unaudited interim condensed 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.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting 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 7. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited annual financial statements as at December 31, 2011.

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



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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**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 June 30, 2012 and an interest coverage ratio of 0.50:1 for the period ended June 30, 2012.

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 order the wind-up of its current activities within six months of the date of the decision. 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.

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**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 interim condensed consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on August 31, 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").

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**3. CCAA Proceedings**

On the Filing Date, after extensive consideration of all other alternatives, the HII Board of Directors after thorough consultation with its advisors, resolved to initiate creditor protection proceedings under the restructuring regime of Canada, under the CCAA with respect to HII and certain of its affiliates. 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 CCAA 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 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 CCAA 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.

It is too early to predict with any certainty the terms of any plan or plans of arrangement that may be proposed to the affected creditors.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements**

June 30, 2012 and 2011

**(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**4. Creditor protection Applicants**

Presented below are condensed combined balance sheets of the Applicants as at June 30, 2012 and December 31, 2011. The condensed combined balance sheets eliminate 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**

	June 30 <u>2012</u>	December 31 <u>2011</u>
<b>Assets</b>		
Non-current assets	\$ 279,538	\$ 147,632
Current assets	136,732	349,085
Assets classified as held for sale	<u>680</u>	<u>7,340</u>
<b>Total assets</b>	<b><u>\$ 416,950</u></b>	<b><u>\$ 504,057</u></b>
<hr/>		
<b>Equity and Liabilities</b>		
Deficit attributable to equity holders of the parent	\$ <u>(430,244)</u>	\$ <u>(338,490)</u>
Non-current liabilities	5,350	13,720
Current liabilities including liabilities subject to compromise	841,390	823,913
Liabilities associated with assets classified as held for sale	<u>454</u>	<u>4,914</u>
<b>Total liabilities</b>	<b><u>847,194</u></b>	<b><u>842,547</u></b>
<b>Total equity and liabilities</b>	<b><u>\$ 416,950</u></b>	<b><u>\$ 504,057</u></b>

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**5. Changes in accounting policies and future applicable accounting standards**

Except for the impact of IAS 12 discussed below, the accounting policies adopted are consistent with those of the previous financial year.

*Future accounting standards and interpretations*

The Company has evaluated the possible impact of a number of standards and interpretations issued by the IASB with an effective date after the date of these unaudited interim condensed 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 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.

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**5. Changes in accounting policies and future applicable accounting standards (cont.)**

*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 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. Upon adoption of the amendment, the Company will presume an investment property will be realized entirely through sale, accordingly, where capital gains may arise, the applicable capital gains rate will apply. The revised standard is effective for periods ending on or after January 1, 2012 with restatement of comparative periods.

The amendment to IAS 12 does not have an impact on the Company's consolidated balance sheet for the prior years ended December 31, 2011 and 2010.

The non cash impact of the Company's adoption of the amendment to IAS 12 resulting from the impact of foreign currency translation on deferred income taxes in the consolidated statements of loss is as follows:

<i>Increase (decrease)</i>	<b>For the three months ended</b>			
	<b>Mar 31, 2011</b>	<b>Jun 30, 2011</b>	<b>Sept 30, 2011</b>	<b>Dec 31, 2011</b>
Deferred income taxes expense	\$ <u>(2,128)</u>	\$ <u>(1,637)</u>	\$ <u>29</u>	\$ <u>3,736</u>
Net income (loss) from continuing operations	\$ <u>2,128</u>	\$ <u>1,637</u>	\$ <u>(29)</u>	\$ <u>(3,736)</u>
Net income (loss)	\$ <u>2,128</u>	\$ <u>1,637</u>	\$ <u>(29)</u>	\$ <u>(3,736)</u>
Earnings per share	\$ <u>0.11</u>	\$ <u>0.08</u>	\$ <u></u>	\$ <u>(0.19)</u>

There were no material changes to the consolidated statements of cash flows.

*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 has evaluated IAS 1 and does not believe this standard will have a material impact 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 annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has evaluated IAS 28 and does not believe this standard will have a material impact on its consolidated financial statements provided that the sale of the 9 Limited Partnerships in the United States closes prior to December 31, 2012, as planned.

**6. Receivables and other**

	<b>June 30</b>	<b>December 31</b>
	<b>2012</b>	<b>2011</b>
Trade receivables	\$ <u>30,149</u>	\$ <u>30,647</u>
Prepays	<u>2,489</u>	<u>825</u>
	\$ <u><b>32,638</b></u>	\$ <u><b>31,472</b></u>

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**7. Investments, at fair market value**

	June 30 <u>2012</u>	December 31 <u>2011</u>
<b>Current amounts</b>		
CANMARC Real Estate Investment Trust (a) (Note 8)	\$ <u>          </u>	\$ <u>120,222</u>
<b>Non-Current amounts</b>		
Cedar Shopping Centers, Inc. (b)	\$ 482	\$ 428
CANMARC REIT (a)		20,800
HEEF B.V. (c)	6,109	6,257
Homburg MediArena B.V. (d)	<u>774</u>	<u>793</u>
	<u>\$ 7,365</u>	<u>\$ 28,278</u>

(a) At December 31, 2011 the Company held 8,813,866 units of CANMARC REIT, a real estate investment trust listed on the Toronto Stock exchange (TSX: CMQ.UN). In the first quarter of 2012, the Company sold all units in CANMARC REIT and the value related to the pledged units and the court sanctioned amount is included in restricted cash at period end.

(b) The Company holds 50,000 (December 31, 2011 - 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 B.V. at June 30, 2012 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 B.V. from investors or lenders. There is no certainty that efforts to attract the necessary additional funding to continue development will be successful.

In addition, on April 5, 2012, the Company agreed to surrender the full amount of the units it owns in HEEF B.V. as payment on the remaining amount due by the Company to HEEF B.V. (\$5,560 as at June 30, 2012). Should the proceeds received by HEEF B.V. 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. The transfer of ownership of the units has not yet been completed and is expected to occur subsequent to period end (Note 22).

(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.

**8. Investment in an associate, at equity**

	June 30 <u>2012</u>	December 31 <u>2011</u>
CANMARC Real Estate Investment Trust (formerly Homburg Canada Real Estate Investment Trust) ("CANMARC")		
Balance, beginning of the year	\$	\$ 191,702
Distributions received		(8,576)
Deemed disposition		(85,042)
Share of net income		8,911
Reclassification of investment to portfolio investments		<u>(106,995)</u>
Balance at June 30, 2012 and December 31, 2011	<u>\$</u>	<u>\$</u>
		June 30 <u>2011</u>
<b>Share of loss of an associate</b>		
Disposition and dilution losses	\$	\$ (11,452)
Share of net income		<u>4,767</u>
	<u>\$</u>	<u>\$ (6,685)</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 Hill's voting ownership in CANMARC decreasing from 33.7% to 23.1%. These transactions resulted in a net deemed disposition loss of approximately \$11,452 and loss of significant influence.

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**8. Investment in an associate, at equity (cont.)**

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.

In the first quarter of 2012, the Company sold all remaining units in CANMARC REIT.

The Company's share of the results of the associate for the period ended June 30, 2011 under IFRS are as follows:

	June 30 <u>2012</u>	June 30 <u>2011</u>
Revenue	\$ <u>          </u>	\$ <u>14,633</u>
Net income	\$ <u>          </u>	\$ <u>4,767</u>

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**9. Accounts payable and other liabilities**

	June 30 <u>2012</u>	December 31 <u>2011</u>
<b>Current amounts</b>		
Payables (Note 18b)	\$ 26,303	\$ 31,232
Notes payable	154	154
Prepaid rents and deposits	4,268	5,589
Security deposits	1,160	875
MoTo Objekt Campeon GmbH & Co KG (b)	10,057	10,302
Related party payable (Note 18f)	1,186	14,058
	<u>\$ 43,128</u>	<u>\$ 62,210</u>

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The Company has no available credit facilities as at June 30, 2012 (December 31, 2011 - \$NIL).

As a result of the CCAA filing certain trade payables have been classified as liabilities subject to compromise (Note 13).

- a) Non-construction demand loans consist of the following:
- i) A promissory note payable plus interest in the amount of EUR €4,312 (\$5,560) (December 31, 2011 - EUR €4,217 (\$5,570)), 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 18h). Due to the CCAA filing the Non-construction demand loans are in default and have therefore been classified as liabilities subject to compromise and falling due within one year (Note 13 and 22).
  - b) EUR €7,800 (\$10,057) (December 31, 2011 - EUR €7,800 (\$10,302)) represents the purchase price on the remaining 6.63% of MoTo Objekt Campeon GmbH & Co KG which the Company expects to acquire in the last half of 2012.
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**10. Long term debt**

	June 30 2012	December 31 2011
Secured debt		
Mortgages (a)	\$ <u>938,562</u>	\$ <u>987,608</u>
Less: Deferred financing charges, net of accumulated amortization of \$528 (December 31, 2011 - \$614)	<u>62</u>	<u>59</u>
	<u>938,624</u>	<u>987,667</u>
Less: current portion	<u>453,307</u>	<u>392,343</u>
<b>Long term debt</b>	<b>\$ <u>485,317</u></b>	<b>\$ <u>595,324</u></b>

**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 2.24% and for fixed rate long term debt was 5.31% (December 31, 2011 - variable - 2.59%, fixed - 5.16%). Scheduled principal installments and principal maturities on long term debt are as follows:

	<u>Mortgages</u>		<u>Bonds, HCSA and Junior Subordinated Notes</u>	<u>Total</u>	<u>Weighted Average Interest Rate of Maturing Debt</u>
	<u>Normal Principal Installments</u>	<u>Principal Maturities</u>			
Within 1 year	\$ 12,642	\$ 440,665	\$	\$ 453,307	3.75%
1-2 years	11,522	33,105		44,627	5.03%
2-3 years	11,682			11,682	0.00%
3-4 years	9,211	23,265		32,476	3.76%
4-5 years	8,724	24,860		33,584	5.67%
Later		<u>362,886</u>		<u>362,886</u>	4.66%
	<u>\$ 53,781</u>	<u>\$ 884,781</u>	<u>\$</u>	<u>\$ 938,562</u>	

Mortgage principal maturities include loans of \$428,997 which were in default of their lending covenants at June 30, 2012 and accordingly have been classified as falling due within one year. A balance of \$14,725 was classified as liabilities subject to compromise at June 30, 2012 (Note 13).

Specific investment properties and properties under development for resale with a fair market value of \$1,122,261 (December 31, 2011 - \$1,274,093) 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:

		June 30 2012	December 31 2011
US dollar denominated	USD	\$ <u>5,006</u>	\$ <u>5,123</u>
	CAD	\$ <u>5,131</u>	\$ <u>5,225</u>
EURO denominated	EUR	€ <u>723,926</u>	€ <u>737,292</u>
	CAD	\$ <u>933,430</u>	\$ <u>973,815</u>

**b) Mortgage bonds payable**

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>June 30 2012</u>	<u>December 31 2011</u>	<u>June 30 2012</u>	<u>December 31 2011</u>
HMB4	Nov. 30, 2011	7.50%	EUR €20,010	EUR €20,010	\$	\$
HMB5	Dec. 31, 2011	7.50%	EUR €20,010	EUR €20,010		
HMB6	June 30, 2012	7.50%	EUR €31,230	EUR €31,230		
HMB7	June 30, 2012	7.25%	EUR €31,230	EUR €31,230		
					<u>\$</u>	<u>\$</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 classified as liabilities subject to compromise (Note 13) and falling due within one year. Although HMB4, HMB5, HMB6 and HMB7 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 13).

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10. Long term debt (cont.)

c) Corporate non-asset backed bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>June 30</u>	<u>December 31</u>	<u>June 30</u>	<u>December 31</u>
			<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
HB8	May 31, 2013	7.00%	EUR €50,010	EUR €50,010	\$	\$
HB9	October 31, 2013	7.00%	EUR €60,000	EUR €60,000		
HB10	February 15, 2014	7.25%	EUR €100,005	EUR €100,005		
HB11	January 15, 2015	7.25%	EUR €100,005	EUR €100,005		
					<u>\$</u>	<u>\$</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 classified as liabilities subject to compromise (Note 13) 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 13).

d) Junior subordinated notes

The junior subordinated notes consist of EUR €25,000 (\$32,235) (December 31, 2011 - EUR €25,000 (\$33,020)) and USD \$20,000 (\$20,502) (December 31, 2011 - USD \$20,000 (\$20,398)) 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 13). 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 June 30, 2012. Due to the CCAA filing the notes have been classified under liabilities subject to compromise (Note 13).

e) 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 classified as liabilities subject to compromise (Note 13) 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 13).

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**11. 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:

	<b>Six Months Ended June 30 2012</b>	<b>Six Months Ended June 30 2011 Restated (Note 5)</b>
Income from continuing operations before income taxes	\$ <u>(113,913)</u>	\$ <u>(39,921)</u>
Combined Canadian federal and provincial statutory income tax rate	<b>28.00 %</b>	30.50 %
Income tax expense (recovery) at the above tax rate	\$ <u>(31,896)</u>	\$ <u>(12,176)</u>
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains, losses and market value changes	(2,724)	2,036
Provincial capital tax	41	72
Benefit of current year tax losses not recognized	32,569	10,104
Effect of rate change on temporary differences	50	1,378
Effect of difference in statutory tax rates of subsidiaries	2,401	188
Other	239	(352)
<b>Income tax expense</b>	<b>\$ <u>680</u></b>	<b>\$ <u>1,250</u></b>
Comprised of:		
Current income tax	3,173	3,049
Deferred income tax	<u>(2,493)</u>	<u>(1,799)</u>
	<b>\$ <u>680</u></b>	<b>\$ <u>1,250</u></b>

The reduction of the combined Canadian federal and provincial statutory income tax rate includes the federal rate reduction of 1.5% for 2012. 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:

	<b>June 30 2012</b>	<b>December 31 2011</b>	<b>Income Statement</b>	<b>OCI <sup>(1)</sup></b>	<b>Other</b>
<b>Deferred tax assets</b>					
Loss carry forwards	\$ 14,912	\$ 22,553	\$ (7,641)	\$	
Deferred revenues and costs	340	63	278	(1)	
Unrealized losses	<u>15,252</u>	<u>22,628</u>	<u>(12)</u>	<u>(1)</u>	
<b>Deferred tax liabilities</b>					
Unrealized gains	(8,474)	(7,210)	203	(1,467)	
Investment	<u>(26,185)</u>	<u>(27,583)</u>	<u>9,037</u>	<u>770</u>	
Investment properties	<u>(34,659)</u>	<u>(43,830)</u>	<u>9,868</u>	<u>(697)</u>	
<b>Net deferred tax asset (liability)</b>	<b>\$ <u>(19,407)</u></b>	<b>\$ <u>(21,202)</u></b>	<b>\$ <u>2,493</u></b>	<b>\$ <u>(698)</u></b>	<b>\$</b>

(1) Other Comprehensive Income (loss)

The net deferred tax liability is disclosed as follows:

	<b>June 30 2012</b>	<b>December 31 2011</b>
Deferred tax asset	\$ 35	\$ 950
Deferred tax liability	<u>(19,442)</u>	<u>(22,152)</u>
	<b>\$ <u>(19,407)</u></b>	<b>\$ <u>(21,202)</u></b>



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**11. Income taxes (cont.)**

The Company has non-capital loss carryforwards of \$287,190. These expire as follows: \$29,036 in 2027; \$126,279 in 2028, \$37,740 in 2029, \$8,536 in 2030, \$45,660 in 2031 and \$39,938 in 2032. The Company has gross capital loss carryforwards of \$289,671 with no expiry. A benefit relating to capital losses of \$67,526 has been recognized. The Company also has foreign tax credits of \$3,241 which expire between 2014 and 2020, the benefit of which has not been recognized.

The Company has approximately \$103,000 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.

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**12. Discontinued operations**

The following represents the income statement amounts associated with certain Canadian investment properties held for sale from December 31, 2010 and presented as discontinued.

	Three Months Ended June 30 2012	Three Months Ended June 30 2011	Six Months Ended June 30 2012	Six Months Ended June 30 2011
<b>Income statement</b>				
Property revenue	\$ 871	\$ (150)	\$ 25	\$ 88
Sale of properties developed for resale	<u>871</u>	<u>(150)</u>	<u>6,470</u>	<u>88</u>
Total revenue	<u>871</u>	<u>(150)</u>	<u>6,495</u>	<u>88</u>
Property operating expenses	3		16	
Cost of sale of properties developed for resale	<u>1,269</u>	<u></u>	<u>6,923</u>	<u></u>
	<u>1,272</u>	<u></u>	<u>6,939</u>	<u></u>
Gross income from operations	(401)	(150)	(444)	88
Other income		58	1	120
General and administrative	(4)	11	(64)	(25)
Fair value adjustment on investment properties	(33)	583	(33)	583
Loss on sale of assets	<u></u>	<u></u>	<u></u>	<u>(449)</u>
Net gain (loss) from discontinued operations after tax	<u>\$ (438)</u>	<u>\$ 502</u>	<u>\$ (540)</u>	<u>\$ 317</u>

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

	June 30 2012	December 31 2011
<b>Assets classified as held for sale</b>		
Investment properties	\$ 113,732	\$ 113,147
Properties under development for resale	535	7,133
Restricted cash	477	389
Cash	1,070	2,145
Receivable and others	<u>433</u>	<u>928</u>
	<u>\$ 116,247</u>	<u>\$ 123,742</u>
<b>Liabilities associated with assets held for sale</b>		
Long term debt	\$ 81,655	\$ 81,855
Long term debt subject to compromise (Note 13)	367	4,871
Accounts payable	<u>1,100</u>	<u>1,210</u>
	<u>\$ 83,122</u>	<u>\$ 87,936</u>
	June 30 2012	June 30 2011
<b>Statement of cash flows</b>		
Operating activities	<u>\$ 1,406</u>	<u>\$ 295</u>
Investing activities	<u>\$ 5,877</u>	<u>\$ (124)</u>
Financing activities	<u>\$ (4,761)</u>	<u>\$ (3,151)</u>

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**13. Liabilities subject to compromise**

	<b>June 30</b>	December 31
	<b>2012</b>	<b>2011</b>
Payables (Note 9)	\$ 112,151	\$ 90,269
Non-construction demand loan (Note 9 (a))	5,560	5,569
Security deposits (Note 9)	2,243	2,658
Construction financing	32,108	24,963
Provisions	22,565	22,573
Homburg Capital Securities A (Note 14)	34,537	35,378
Long term debt (Note 10a)	14,725	14,725
Mortgage bonds (Note 10b)	132,138	135,356
Corporate non-asset backed bonds (Note 10c)	399,740	409,474
Junior subordinated notes (Note 10d)	<u>52,737</u>	<u>53,418</u>
	<u>\$ 808,504</u>	<u>\$ 794,383</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.

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**14. Shareholders' equity**

	<b>June 30</b>	December 31
	<b>2012</b>	<b>2011</b>
Deficit	\$ (1,095,820)	\$ (980,687)
Accumulated other comprehensive loss (a)	<u>(14,200)</u>	<u>(10,222)</u>
	(1,110,020)	(990,909)
Share capital (b)	700,403	700,403
Contributed surplus	<u>20,165</u>	<u>20,157</u>
	<u>\$ (389,452)</u>	<u>\$ (270,349)</u>

**a) Accumulated other comprehensive loss**

	<b>June 30</b>	December 31
	<b>2012</b>	<b>2011</b>
Net unrealized foreign currency translation losses	\$ (9,930)	\$ (6,650)
Deferred tax expense	<u>(4,270)</u>	<u>(3,572)</u>
	<u>\$ (14,200)</u>	<u>\$ (10,222)</u>

Accumulated other comprehensive loss 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 following are rates of exchange in effect:

	<b>\$1.00 USD</b>	<b>€1.00 EUR</b>
June 30, 2012	\$ 1.02510	\$ 1.28940
December 31, 2011	\$ 1.01990	\$ 1.32080
Average rate for six months 2012	\$ 1.00636	\$ 1.30592
Average rate for six months 2011	\$ 0.97690	\$ 1.36990

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements**

June 30, 2012 and 2011

**(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**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)	<u>Share Capital</u>
Issued and outstanding at December 31, 2010	17,049	3,113	\$ 701,034
Shares acquired under Normal Course Issuer Bid	<u>(14)</u>	<u>(8)</u>	<u>(631)</u>
Issued and outstanding at December 31, 2011 and June 30, 2012	<u><u>17,035</u></u>	<u><u>3,105</u></u>	<u><u>\$ 700,403</u></u>

**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 period ended June 30, 2012, no shares were acquired and cancelled.

**d) Other paid in capital**

	June 30 <u>2012</u>	December 31 <u>2011</u>
Balance, beginning of period		29,171
Homburg Capital Securities A ("HCSA"): Equity component, net of tax		<u>(29,171)</u>
<b>Balance, end of period</b>	<u><u>\$</u></u>	<u><u>\$</u></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 in the third quarter of 2011 and the reversal of the capital component which has been adjusted through deficit in the third quarter of 2011. The debt has been classified to liabilities subject to compromise (Note 13).

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**15. Earnings (loss) per share**

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

	Three Months Ended June 30 <u>2012</u> (000's)	Three Months Ended June 30 <u>2011</u> (000's)	Six Months Ended June 30 <u>2012</u> (000's)	Six Months Ended June 30 <u>2011</u> (000's)
<b>Basic and Diluted</b>				
Class A Subordinate Voting	17,035	17,062	17,035	17,043
Class B Multiple Voting	<u>3,105</u>	<u>3,105</u>	<u>3,105</u>	<u>3,110</u>
	<u><u>20,140</u></u>	<u><u>20,167</u></u>	<u><u>20,140</u></u>	<u><u>20,153</u></u>
Earnings available to Class A and Class B shareholders is calculated as:		Restated (Note 5)		Restated (Note 5)
Net loss	\$ (103,276)	\$ (39,507)	\$ (115,133)	\$ (40,854)
Homburg Capital Securities equity accretion (Note 14 (d))		<u>(876)</u>		<u>(1,698)</u>
	<u><u>\$ (103,276)</u></u>	<u><u>\$ (40,383)</u></u>	<u><u>\$ (115,133)</u></u>	<u><u>\$ (42,552)</u></u>

The Company incurred a loss during the periods ended June 30, 2012 and 2011. 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.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**16. Supplemental cash flow information**

	<b>Three Months</b>	<b>Three Months</b>	<b>Six Months</b>	<b>Six Months</b>
	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>
	<b>June 30</b>	<b>June 30</b>	<b>June 30</b>	<b>June 30</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Change in non-cash working capital and other:				
Receivables and other	\$ (1,970)	\$ (3,092)	\$ (1,166)	\$ (3,466)
Construction properties for resale	7,496	(4,817)	12,728	(5,563)
Accounts payable and other liabilities	5,994	4,957	8,763	9,086
	<u>\$ 11,520</u>	<u>\$ (2,952)</u>	<u>\$ 20,325</u>	<u>\$ 57</u>
Interest paid	<u>\$ 12,158</u>	<u>\$ 23,762</u>	<u>\$ 24,704</u>	<u>\$ 48,707</u>
Interest capitalized	<u>\$</u>	<u>\$ 2,416</u>	<u>\$</u>	<u>\$ 6,588</u>
Capital and income taxes paid	<u>\$ 1,915</u>	<u>\$ 863</u>	<u>\$ 3,398</u>	<u>\$ 2,038</u>

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## Homburg Invest Inc.

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

### Notes to Interim Condensed Consolidated Financial Statements

June 30, 2012 and 2011

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

#### 17. 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 June 30 2012</u>	<u>Fair Value June 30 2012</u>	<u>Carrying Value December 31 2011</u>	<u>Fair Value December 31 2011</u>
<b>Held for Trading</b>					
Long term investments - others (a)	Fair value (L1)	\$ 1,256	\$ 1,256	\$ 22,021	\$ 22,021
Long term investments - HEEF B.V. (a)	Fair value (L3)	6,109	6,109	6,257	6,257
Cash and cash equivalents (b)	Fair value (L1)	11,822	11,822	20,523	20,523
Investments (b)	Fair value (L1)			120,222	120,222
Derivative instrument liability (b)	Fair value (L2)	<u>(30,771)</u>	<u>(30,771)</u>	<u>(26,850)</u>	<u>(26,850)</u>
		<u>\$ (11,584)</u>	<u>\$ (11,584)</u>	<u>\$ 142,173</u>	<u>\$ 142,173</u>
<b>Loans and Receivables</b>					
Restricted cash (c)	Amortized cost	\$ 126,224	\$ 126,224	\$ 8,514	\$ 8,514
Receivables and other (c)	Amortized cost	<u>32,638</u>	<u>32,638</u>	<u>31,472</u>	<u>31,472</u>
		<u>\$ 158,862</u>	<u>\$ 158,862</u>	<u>\$ 39,986</u>	<u>\$ 39,986</u>
<b>Other Financial Liabilities</b>					
Accounts payable and other (c)	Amortized cost	\$ 155,279	● <sub>1</sub>	\$ 152,479	● <sub>1</sub>
Mortgages (d)	Amortized cost	938,562	● <sub>1</sub>	987,608	● <sub>1</sub>
Mortgage bonds (d)	Amortized cost	132,138	● <sub>1</sub>	135,356	● <sub>1</sub>
Corporate non-asset backed bonds (d)	Amortized cost	399,740	● <sub>1</sub>	409,474	● <sub>1</sub>
Junior subordinated notes (d)	Amortized cost	52,737	● <sub>1</sub>	53,418	● <sub>1</sub>
Deferred financing charges (d)	Amortized cost	62	● <sub>1</sub>	59	● <sub>1</sub>
Construction financing (c)	Amortized cost	<u>32,108</u>	● <sub>1</sub>	<u>32,377</u>	● <sub>1</sub>
		<u>\$ 1,710,626</u>	<u>\$</u>	<u>\$ 1,770,771</u>	<u>\$</u>

1 - The risks associated with CCAA, as previously outlined in Notes 1 and 3 could impact the amounts presented as Fair Value at period end. 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 2011 or 2012.

- (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 gain of \$52 resulting from the change in fair values of long term investments was recorded in the consolidated statement of loss during the period ended June 30, 2012 (2011 - loss of \$1) (Note 22).
- (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 \$4,618 related to the derivatives during the period ended June 30, 2012 in the consolidated statement of loss (2011 - gain of \$3,396).
- (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 June 30, 2012 and 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 June 30, 2012 and December 31, 2011. The Company is therefore unable to determine the Fair Value of its liabilities as at the date of these statements.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements**

June 30, 2012 and 2011

**(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**17. 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 June 30, 2012 or December 31, 2011 (long term debt, construction financing, long term payables and demand loans + shareholders' equity). For the period ended June 30, 2012, Homburg Invest had total interest expense coverage from continuing operations of 0.50:1 (June 30, 2011 - 0.85:1) (calculated as property revenue, less property operating expenses, expenses relating to CCAA filings and general and administrative expenses + interest expense (excluding capitalized interest)).

The following table presents the Company's contractual obligations at June 30, 2012, 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 Obligations**

	<b>Within</b>					
	<b>1 year</b>	<b>1-2 Years</b>	<b>2-3 Years</b>	<b>3-4 Years</b>	<b>4-5 Years</b>	<b>Later</b>
Ground lease	\$ 186	\$ 186	\$ 186	\$ 186	\$ 186	\$ 3,302
Mortgages: Normal principal installments	12,642	11,522	11,682	9,211	8,724	
Interest	24,456	23,085	20,795	19,767	17,001	
Principal maturities	11,668	33,105		23,265	24,860	362,886
Derivative financial instruments	30,771					
Other current payables	10,057					
Working capital deficit (i)	799,757					
Mortgage principal: covenant breach	428,997					
	<b>\$ 1,318,534</b>	<b>\$ 67,898</b>	<b>\$ 32,663</b>	<b>\$ 52,429</b>	<b>\$ 50,771</b>	<b>\$ 366,188</b>

(i) The working capital deficit of \$799,757 consists of cash \$11,822, trade receivables \$30,149, less payables \$26,303, income taxes payable \$5,581, related party payable \$1,186, liabilities subject to compromise \$808,504 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 obtained from the prior sale of CANMARC Units 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 \$618,116 in fixed rate debt and \$320,446 in floating rate debt (before deferred financing charges). The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €118,327 (\$152,571) (December 31, 2011 - EUR €119,324 (\$157,603)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the period ended June 30, 2012, the impact on the consolidated statement of loss is a loss of \$4,618 (June 30, 2011 - gain of \$3,396). The Company discloses the weighted average interest rate of maturing long term debt in Note 10. 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 \$2,307 in the Company's earnings as a result of the impact on floating rate borrowings.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**17. Financial instruments and risk management (cont.)****c) Credit risk**

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$11,189 at June 30, 2012 (December 31, 2011 - \$13,156) 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 37.8% 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 (\$96,705) 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 operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. During the 4th quarter of 2011 the internal hedge became ineffective and the related foreign currency gain is now recorded in income (loss). 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 \$8,138 and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9,284 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 \$(190) and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1,476 after income taxes.

The Balance Sheets of the Company's foreign 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 foreign operations is reflected in the other comprehensive income of the Company 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 37.8% (December 31, 2011 - 38.0%) of property revenue for the period. 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 \$519,241 at June 30, 2012 (December 31, 2011 - \$534,132).

**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.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**17. 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 the 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.

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**18. 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:

	<b>Six Months Ended June 30 2012</b>	<b>Six Months Ended June 30 2011</b>
Rental revenue earned	\$ (25)	\$ (45)
Interest income	\$	\$ (642)
Asset and construction management fees (n)	\$ 837	\$ 3,701
Property management fees incurred (n)	\$ 487	\$ 1,051
Insurance costs incurred	\$ 34	\$ 38
Service fees incurred	\$ 348	\$ 1,862
Property acquisition/disposal fees incurred (n)	\$	\$ 993
Interest costs incurred (h)	\$ 66	\$ 885

- b) Included in trade payables is \$752 (accounts payable - December 31, 2011 - \$4,083) 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, 2011 - \$360) from the former Chairman and Chief Executive Officer. The unit will be transferred to the former Chairman and Chief Executive Officer as part of the agreement with Homburg Canada Inc. (Note 18m).
- 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 \$13 (June 30, 2011 - \$164) 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 \$1,186 (December 31, 2011 - \$14,058) with companies commonly controlled by the former Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
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**Homburg Invest Inc.**  
**(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)**  
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**(Unaudited - Prepared by Management)**  
(CAD \$ thousands except per share amounts)

**18. Related party transactions (cont.)**

- g) Included in accounts receivable is \$NIL (December 31, 2011 - \$1,050) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- h) Included in liabilities subject to compromise - non-construction demand loans is a promissory note payable in the amount of EUR €4,312 (\$5,560) (December 31, 2011 - EUR €4,217 (\$5,570)). 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 22).
- i) The Company has entered into head leases ("Head Leases") with CANMARC. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$820. 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 \$734 included in property operating expenses for the period ended June 30, 2012. These head leases were resiliated on May 29, 2012. Since the sale of the Company's holdings in Canmarc REIT during the first quarter of 2012, Canmarc REIT is no longer a related party.

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. During the period 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.

- j) 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 \$93 included in property operating expenses for the period ended June 30, 2012.
- k) 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.

l) 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 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 for the six months ending June 30:

	<u>2012</u>	<u>2011</u>
Short term employee benefits	\$ <u>765</u>	\$ <u>      </u>

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

- m) During the 4th quarter of 2011 the Company entered into an agreement with Homburg Canada Inc. that was closed in the first quarter of 2012. 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 22a. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by cash payments totalling \$10.5 million which have been made, and other consideration.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements**

June 30, 2012 and 2011

**(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**18. Related party transactions (cont.)**

## n) 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. During the period, the closing of the agreement between the Company and Homburg Canada Inc. occurred and 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.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**19. Commitments**

	<u>With in 1 year</u>	<u>1 - 2 years</u>	<u>2 - 3 years</u>	<u>3 - 4 years</u>	<u>4 - 5 years</u>	<u>Later</u>
Future minimum lease payments:						
Headlease commitment (Note 18i,j)	\$ <u>186</u>	\$ <u>186</u>	\$ <u>186</u>	\$ <u>186</u>	\$ <u>186</u>	\$ <u>3,302</u>

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**20. 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) 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.
- c) As part of the claims process, the Monitor and ultimately the court will rule on the legitimacy of any 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.
- d) The claims process as approved by the CCAA Court closed July 13, 2012, as part of the claims process the Company agreed to surrender its investment in HEEF B.V. in the amount of \$6,301 (EUR €4,737), to satisfy the remaining amount due by the Company to HEEF B.V. of \$5,608 (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. The transfer of ownership of the units has not yet been completed and is expected to occur subsequent to period end.
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**21. 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.

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**Homburg Invest Inc.**

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

**Notes to Interim Condensed Consolidated Financial Statements**

June 30, 2012 and 2011

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

**21. Segmented information (cont.)**

	<u>Germany</u>	<u>Netherlands</u>	<u>Baltic States</u>	<u>North America</u>	<u>Total</u>
<b>Six months ended June 30, 2012</b>					
Property revenue	\$ 29,055	\$ 14,022	\$ 9,287	\$ 9,085	\$ 61,449
Property Operating expenses	<u>905</u>	<u>2,574</u>	<u>2,707</u>	<u>5,133</u>	<u>11,319</u>
	<u>\$ 28,150</u>	<u>\$ 11,448</u>	<u>\$ 6,580</u>	<u>\$ 3,952</u>	<u>\$ 50,130</u>
<b>Six months ended June 30, 2011</b>					
Property revenue	\$ 30,391	\$ 16,365	\$ 8,980	\$ 8,430	\$ 64,166
Property Operating expenses	<u>834</u>	<u>3,833</u>	<u>2,450</u>	<u>6,072</u>	<u>13,189</u>
	<u>\$ 29,557</u>	<u>\$ 12,532</u>	<u>\$ 6,530</u>	<u>\$ 2,358</u>	<u>\$ 50,977</u>
<b>June 30, 2012</b>					
Investment properties	<u>\$ 632,958</u>	<u>\$ 278,727</u>	<u>\$ 148,229</u>	<u>\$ 30,565</u>	<u>\$ 1,090,479</u>
Mortgages payable	<u>\$ 453,112</u>	<u>\$ 327,750</u>	<u>\$ 152,571</u>	<u>\$ 5,129</u>	<u>\$ 938,562</u>
Mortgage bonds payable	<u>\$ 32,204</u>	<u>\$ 33,865</u>	<u>\$</u>	<u>\$ 66,069</u>	<u>\$ 132,138</u>
<b>December 31, 2011</b>					
Investment properties	<u>\$ 668,171</u>	<u>\$ 320,938</u>	<u>\$ 204,740</u>	<u>\$ 30,442</u>	<u>\$ 1,224,291</u>
Mortgages payable	<u>\$ 476,252</u>	<u>\$ 339,956</u>	<u>\$ 157,604</u>	<u>\$ 13,796</u>	<u>\$ 987,608</u>
Mortgage bonds payable	<u>\$ 33,860</u>	<u>\$ 33,818</u>	<u>\$</u>	<u>\$ 67,678</u>	<u>\$ 135,356</u>

In addition to the above, the North American segment derived revenue from the sale of properties developed for resale of \$10,977 (June 30, 2011 - \$4,969), less costs of development of \$11,779 (June 30, 2011 - \$4,511), which resulted in a loss on sale of properties of \$802 (June 30, 2011 - gain of \$458). At June 30, 2012, the Germany segment included one (December 31, 2011 - one) tenant that individually represented 37.8% (December 31, 2011 - 38.0%) of the Company's consolidated property revenue for the period. Property operating expenses include \$847 relating to vacant properties (June 30, 2011 - \$1,854).

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>
<b>Six months ended June 30, 2012</b>					
Property revenue	\$ 9,687	\$ 7,135	\$ 44,597	\$ 30	\$ 61,449
Property Operating expenses	<u>3,269</u>	<u>1,677</u>	<u>6,072</u>	<u>301</u>	<u>11,319</u>
	<u>\$ 6,418</u>	<u>\$ 5,458</u>	<u>\$ 38,525</u>	<u>\$ (271)</u>	<u>\$ 50,130</u>
<b>Six months ended June 30, 2011</b>					
Property revenue	\$ 9,074	\$ 6,974	\$ 48,101	\$ 17	\$ 64,166
Property Operating expenses	<u>2,469</u>	<u>1,764</u>	<u>8,426</u>	<u>530</u>	<u>13,189</u>
	<u>\$ 6,605</u>	<u>\$ 5,210</u>	<u>\$ 39,675</u>	<u>\$ (513)</u>	<u>\$ 50,977</u>
<b>June 30, 2012</b>					
Investment properties	<u>\$ 81,501</u>	<u>\$ 140,890</u>	<u>\$ 868,088</u>	<u>\$</u>	<u>\$ 1,090,479</u>
Mortgages payable	<u>\$ 61,095</u>	<u>\$ 149,474</u>	<u>\$ 727,993</u>	<u>\$</u>	<u>\$ 938,562</u>
Mortgage bonds payable	<u>\$ 6,403</u>	<u>\$ 16,601</u>	<u>\$ 43,065</u>	<u>\$</u>	<u>\$ 66,069</u>
<b>December 31, 2011</b>					
Investment properties	<u>\$ 102,314</u>	<u>\$ 160,786</u>	<u>\$ 961,191</u>	<u>\$</u>	<u>\$ 1,224,291</u>
Mortgages payable	<u>\$ 63,076</u>	<u>\$ 154,650</u>	<u>\$ 761,313</u>	<u>\$ 8,569</u>	<u>\$ 987,608</u>
Mortgage bonds payable	<u>\$ 7,431</u>	<u>\$ 17,029</u>	<u>\$ 43,218</u>	<u>\$</u>	<u>\$ 67,678</u>

At June 30, 2012, mortgage bonds payable totalled \$132,138. Of this amount \$66,069 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$66,069 is allocated to specific property classification segments above. At December 31, 2011, mortgage bonds payable totalled \$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.

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**Homburg Invest Inc.****(Under Creditor Protection Proceedings as of September 9, 2011 - see notes 1 and 3)****Notes to Interim Condensed Consolidated Financial Statements****June 30, 2012 and 2011****(Unaudited - Prepared by Management)**(CAD \$ thousands except per share amounts)

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**22. Subsequent events**

a) On June 20, 2012, the Company received approval from the CCAA court to proceed with the exercise of the Baltic options, which will enable HII to acquire control of the general partner of its Baltic subsidiaries. The Company completed this second option exercise, subsequent to period end.

b) Subsequent to period end, on July 13, 2012 the Claims Bar date closed. Approximately \$2.1 billion in claims have been filed to date. Approximately \$808.5 million of this amount has been accrued. The Monitor is now in the process of adjudicating the claims filed, and any claim found to be valid by the Monitor, that the Company has not accrued, will result in additional liabilities that are not currently accrued. The Company is not currently aware of any additional material claims, not recorded in these financial statements.

c) During the period the Company has agreed to surrender its investment in HEEF B.V. in the amount of \$6,109 (EUR €4,737), to satisfy the remaining amount due by the Company to HEEF B.V. of \$5,560 (EUR €4,312). 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. It is expected that the transfer of ownership of these units will occur in the subsequent quarter.

d) Subsequent to period end, the Company has notified certain banks that it will no longer fund cash flow deficiencies in certain properties. Standstill agreements have been reached with certain lenders to fund the deficiencies. These agreements are short term in nature and the Company continues to negotiate long term solutions to these properties with these lenders, should the parties not come to a mutual agreement the lender could call the debt.

e) Subsequent to period end, the CCAA Court approved the 5th extension of the general stay originally granted September 9, 2011, until September 14, 2012.

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**23. 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.

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**24. Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.

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**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Six Months Ended June 30, 2012**

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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").

In compliance with National Instrument 51-102 of the Canadian Securities Administrators, Management notifies readers that the unaudited interim condensed consolidated financial statements for the periods ended June 30, 2012 and June 30, 2011, have not been reviewed by the Company's external auditors.

**DATE OF MD&A**  
August 31, 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 2012 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](http://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](http://www.homburginvestinformation.ca) (English language portal), or [www.homburginvestinformatie.nl](http://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, March 16, 2012, May 31, 2012 and August 24, 2012, was extended respectively to December 9, 2011, March 16, 2012, May 31, 2012, August 31, 2012 and September 14, 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

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**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Six Months Ended June 30, 2012**

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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 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 prior year, 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.

On January 17, 2012 the Company 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.

On February 17, 2012 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 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 other consideration is the transfer of condominium units at emergence from CCAA.

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.

On June 20, 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 in the Baltics. The Company expects to complete this, the Second Option Exercise, in the third quarter of the year.

On July 13, 2012 the Claims Bar date closed. Approximately \$2.1 billion in claims have been filed to date. Approximately \$808.5 million of this amount has been accrued. The Monitor is now in the process of adjudicating the claims filed, and any claim found to be valid by the Monitor, that the Company has not accrued, will result in additional liabilities that are not currently accrued. The Company is not currently aware of any additional material claims, not recorded in these financial statements.

**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**PROPERTIES OWNED**

HII is a public real estate company owning 123 properties with an estimated fair value of \$1.2 billion and 7.5 million square feet of space as at June 30, 2012 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).

	June 30, 2012 <i>(Millions, except for properties)</i>			December 31, 2011 <i>(Millions, except for properties)</i>		
	Buildings	Fair Value	Gross Sq.Ft.	Buildings	Fair Value	Gross Sq.Ft.
<b>By geographical segment</b>						
Germany	16	\$ 632.9	2.5	16	\$ 668.2	2.5
The Netherlands	32	278.7	3.7	32	320.9	3.7
Baltic States	53	148.2	1.0	53	204.7	1.0
North America	12	30.7	0.3	12	30.5	0.3
Sub total	113	1,090.5	7.5	113	1,224.3	7.5
<b>By property type</b>						
Office	77	\$ 868.1	5.1	77	\$ 961.2	5.1
Retail	8	81.5	0.3	8	102.3	0.3
Industrial	28	140.9	2.1	28	160.8	2.1
Sub total	113	1,090.5	7.5	113	1,224.3	7.5
Land and property held for future development (a)	5	70.6		5	73.1	
Construction properties being developed for resale (b)	3	16.9		4	26.5	
Investment property under construction (c)	2	70.7		2	70.6	
<b>Total</b>	<b>123</b>	<b>\$ 1,248.7</b>	<b>7.5</b>	<b>124</b>	<b>\$ 1,394.5</b>	<b>7.5</b>

\* 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 approximately 600 single family dwellings.
- (b) Construction properties being developed for resale - 3 condominium units in Calgary, Alberta (Castello); 10 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); and 14 condominium units in Charlottetown, Prince Edward Island (Pownal Street).
- (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).



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**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 six month periods ended June 30, 2012 and 2011:

	<b>3 Months Ended June 30, 2012</b>	<b>6 Months Ended June 30, 2012</b>	<b>3 Months Ended June 30, 2011</b>	<b>6 Months Ended June 30, 2011</b>
	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i> Restated	<i>(Millions)</i> Restated
Net loss from continuing operations	\$ (102.8)	\$ (114.6)	\$ (40.0)	\$ (41.2)
Add (deduct):				
Share of loss (income) of an associate net of distributions earned			(0.1)	12.7
Interest on liabilities subject to compromise	12.8	25.7		
Unrealized valuation changes	109.8	109.3	27.0	10.4
Gain on sale of investment		(4.4)		
Amortization of financing costs	0.6	0.6	1.2	2.5
Deferred and capital income tax (recovery) / expense	(3.0)	(2.5)	(1.6)	(1.7)
Foreign exchange (gain) loss	(21.2)	(16.5)	7.8	18.0
Loss (gain) on derivative instruments	3.7	4.6	2.2	(3.4)
Expenses relating to CCAA filing	7.0	15.2		
Impairment on development properties for resale	(0.4)	0.2		
Accretion and change in provisions			1.6	1.6
Fair value change in financial instruments		(0.1)	0.1	
<b>Funds from operations (FFO)</b>	<b>6.5</b>	<b>17.5</b>	<b>(1.8)</b>	<b>(1.1)</b>
Add (deduct): net gain (loss) on sale of properties developed for resale	(0.5)	(0.8)		0.5
<b>FFO, net of sale of properties developed for resale</b>	<b>\$ 7.0</b>	<b>\$ 18.3</b>	<b>\$ (1.8)</b>	<b>\$ (1.6)</b>

Funds from operations (FFO) from continuing operations, net of the sale of properties developed for resale, was \$7.0 million for the three-month period ended June 30, 2012, compared to \$(1.8) million recorded in the same period in 2011.

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*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:

	Q2 Average Rate		Q1 Average Rate		Q4 Average Rate		Q3 Average Rate	
EUR : CAD	2012	1.30592	2012	1.31397	2011	1.37706	2011	1.37575
EUR : CAD	2011	1.36990	2011	1.34760	2010	1.36843	2010	1.36371
<b>% Change</b>		<b>(4.7)%</b>		<b>(2.5)%</b>		<b>0.6%</b>		<b>0.9%</b>
USD : CAD	2012	1.00636	2012	1.00242	2011	0.98933	2011	0.97778
USD : CAD	2011	0.97690	2011	0.98610	2010	1.03075	2010	1.03597
<b>% Change</b>		<b>3.0%</b>		<b>1.7%</b>		<b>(4.0)%</b>		<b>(5.6)%</b>

	Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	Q2 2012	1.28940	Q1 2012	1.33030	Q4 2011	1.32080	Q3 2011	1.40450
EUR : CAD	Q1 2012	1.33030	Q4 2011	1.32080	Q3 2011	1.40450	Q2 2011	1.40510
<b>% Change</b>		<b>(3.1)%</b>		<b>0.7%</b>		<b>(6.0)%</b>		<b>-%</b>
USD : CAD	Q2 2012	1.02510	Q1 2012	0.99730	Q4 2011	1.01990	Q3 2011	1.03290
USD : CAD	Q1 2012	0.99730	Q4 2011	1.01990	Q3 2011	1.03290	Q2 2011	0.97650
<b>% Change</b>		<b>2.8%</b>		<b>(2.2)%</b>		<b>(1.3)%</b>		<b>5.8%</b>

	Q2 Average Rate		Q1 Average Rate		Q4 Average Rate		Q3 Average Rate	
EUR : CAD	2011	1.36990	2011	1.34760	2010	1.36843	2010	1.36371
EUR : CAD	2010	1.37676	2010	1.44309	2009	1.58706	2009	1.59533
<b>% Change</b>		<b>(0.5)%</b>		<b>(6.6)%</b>		<b>(13.8)%</b>		<b>(14.5)%</b>
USD : CAD	2011	0.97690	2011	0.98610	2010	1.03075	2010	1.03597
USD : CAD	2010	1.03479	2010	1.04145	2009	1.14172	2009	1.16997
<b>% Change</b>		<b>(5.6)%</b>		<b>(5.3)%</b>		<b>(9.7)%</b>		<b>(11.5)%</b>

	Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	Q2 2011	1.40510	Q1 2011	1.37064	Q4 2010	1.32560	Q3 2010	1.40330
EUR : CAD	Q1 2011	1.37064	Q4 2010	1.32560	Q3 2010	1.40330	Q2 2010	1.27990
<b>% Change</b>		<b>2.5%</b>		<b>3.4%</b>		<b>(5.5)%</b>		<b>9.6%</b>
USD : CAD	Q2 2011	0.97650	Q1 2011	0.97223	Q4 2010	1.00020	Q3 2010	1.03009
USD : CAD	Q1 2011	0.97223	Q4 2010	1.00020	Q3 2010	1.03009	Q2 2010	1.04840
<b>% Change</b>		<b>0.4%</b>		<b>(2.8)%</b>		<b>(2.9)%</b>		<b>(1.7)%</b>

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. The average rate for Q2 2012 of \$1.31 was 4.7% lower than the comparative period average rate of \$1.37 which had an unfavourable impact on the results of the Company's European operations when comparing Q2 2012 to Q2 2011. The closing rate at June 30, 2012 of \$1.29 was 2.4% lower than the closing rate of \$1.32 at December 31, 2011, which favourably decreased the Canadian dollar equivalent amount of the Company's unhedged Euro denominated debt which stood at €605.6 million at June 30, 2012.

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 8.0% of NOI in Q2 2012 and 4.6% of NOI in Q2 2011. Fluctuations in the US dollar also impact the Company's unhedged US dollar denominated debt.

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**SUMMARY OF QUARTERLY RESULTS**

	Jun 30 2012	Mar 31 2012	Dec 31 2011	Three Months Ended			Dec 31 2010	Sep 30 2010
				Sep 30 2011	Jun 30 2011	Mar 31 2011		
<i>(Millions, except for per share amounts)</i>								
Property revenue	\$ 30.4	\$ 31.0	\$ 31.4	\$ 31.6	\$ 31.9	\$ 32.3	\$ 35.4	\$ 27.5
Sale of properties developed for resale	6.2	4.8	2.1	5.8	3.2	1.7	1.9	2.5
Realized valuation changes		4.4					(0.7)	
Unrealized valuation changes	(109.8)	0.6	(243.5)	(1.4)	(27.0)	16.6	(56.8)	10.0
Share of income of an associate			8.9	(17.9)	2.9	(9.6)	(14.1)	(0.1)
Other income	18.0	1.6	59.2	5.3	(10.1)	(4.3)	20.8	(12.5)
<b>Total revenue and other gains</b>	<b>\$ (55.2)</b>	<b>\$ 42.4</b>	<b>\$ (141.9)</b>	<b>\$ 23.4</b>	<b>\$ 0.9</b>	<b>\$ 36.7</b>	<b>\$ (13.5)</b>	<b>\$ 27.4</b>
<b>Net operating income</b>	<b>\$ 25.0</b>	<b>\$ 25.1</b>	<b>\$ 25.1</b>	<b>\$ 25.8</b>	<b>\$ 25.2</b>	<b>\$ 25.8</b>	<b>\$ 25.7</b>	<b>\$ 24.8</b>
<b>Earnings (loss) before taxes- Continuing Operations</b>	<b>\$ (104.4)</b>	<b>\$ (9.6)</b>	<b>\$ (254.6)</b>	<b>\$ (70.3)</b>	<b>\$ (40.2)</b>	<b>\$ 0.3</b>	<b>\$ 43.3</b>	<b>\$ (5.6)</b>
Per Share - Basic and diluted	\$ (5.18)	\$ (0.48)	\$ (12.62)	\$ (3.49)	\$ (1.99)	\$ 0.02	\$ 2.10	\$ (0.32)
<b>Net earnings (loss) - Continuing Operations</b>	<b>\$ (102.8)</b>	<b>\$ (11.8)</b>	<b>\$ (248.1)</b>	<b>\$ (70.5)</b>	<b>\$ (40.0)</b>	<b>\$ (1.2)</b>	<b>\$ 10.3</b>	<b>\$ 1.3</b>
Per Share - Basic and diluted	\$ (5.11)	\$ (0.58)	\$ (12.32)	\$ (1.98)	\$ (2.03)	\$ (0.10)	\$ 0.44	\$ 0.02
<b>Net earnings - Discontinued Operations</b>	<b>\$ (0.4)</b>	<b>\$ (0.1)</b>	<b>\$ (1.2)</b>	<b>\$ 0.4</b>	<b>\$ 0.5</b>	<b>\$ (0.2)</b>	<b>\$ (3.5)</b>	<b>\$ (1.3)</b>
Per Share - Basic and diluted	\$ (0.02)	\$ (0.01)	\$ (0.06)	\$ 0.02	\$ 0.02	\$ (0.01)	\$ (0.18)	\$ (0.06)
<b>Net earnings (loss)</b>	<b>\$ (103.3)</b>	<b>\$ (11.9)</b>	<b>\$ (249.3)</b>	<b>\$ (70.0)</b>	<b>\$ (39.5)</b>	<b>\$ (1.4)</b>	<b>\$ 6.8</b>	<b>\$ 0.1</b>
Per Share - Basic and diluted	\$ (5.13)	\$ (0.59)	\$ (12.38)	\$ (1.96)	\$ (2.01)	\$ (0.11)	\$ 0.26	\$ (0.04)
<b>Funds from operations, net of gross income (loss) from the sale of properties developed for resale</b>	<b>\$ 7.0</b>	<b>\$ 11.4</b>	<b>\$ (3.0)</b>	<b>\$ (2.9)</b>	<b>\$ (1.8)</b>	<b>\$ 0.2</b>	<b>\$ 9.2</b>	<b>\$ 2.6</b>
Per Share - Basic and diluted	\$ 0.35	\$ 0.57	\$ (0.15)	\$ (0.14)	\$ (0.09)	\$ 0.01	\$ 0.47	\$ 0.13
<b>Total assets</b>	<b>\$ 1,543.0</b>	<b>\$ 1,714.7</b>	<b>\$ 1,728.2</b>	<b>\$ 2,099.2</b>	<b>\$ 2,088.6</b>	<b>\$ 2,097.0</b>	<b>\$ 2,062.9</b>	<b>\$ 2,324.9</b>
<b>Total long term debt</b>	<b>\$ 938.6</b>	<b>\$ 982.5</b>	<b>\$ 987.7</b>	<b>\$ 1,749.0</b>	<b>\$ 1,703.6</b>	<b>\$ 1,666.8</b>	<b>\$ 1,618.5</b>	<b>\$ 1,729.3</b>
<b>Dividend declared per share</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>

Note: Net earnings (loss) - Continuing Operations, Net earnings (loss) and the related earnings per share - basic and diluted calculations for the four quarters in 2011 have been restated to reflect changes related to IAS 12. See note 5 in the unaudited interim condensed consolidated financial statements.

**Second Quarter 2012 Results**

Property revenues from continuing operations were \$30.4 million during the second quarter ended June 30, 2012, compared to \$31.9 million for the same quarter in 2011 for a decrease of \$1.5 million. The average Canadian dollar foreign exchange rate versus the Euro was 4.7% higher in Q2 2012 versus Q2 2011, which negatively impacted the results.

Net operating income (NOI) was \$25.0 million in the second quarter of 2012, compared to \$25.2 million in the second quarter of 2011 for a decrease of \$0.2 million.

The Company incurred a loss before taxes from continuing operations for the second quarter of 2012 of \$104.4 million (\$5.18 per share), compared to loss before taxes of \$40.2 million in the same period in 2011 (\$1.99 per share), an unfavourable variance of \$64.2 million. The decrease relates primarily to the following:

- A net decrease in fair value of investment properties of \$102.3 million in Q2 2012 compared to a net decrease in fair market value of \$12.8 million in Q2 2011.
- In Q3 2011 the Company began incurring expenses relating to CCAA filings. For Q2 2012 these amounted to \$7.0 million.
- In Q2 2011 the Company recorded a gain from its ownership in CANMARC of \$2.9 million.

Offset by:

- A foreign exchange gain of \$21.2 million was recorded in Q2 2012, compared to a loss of \$7.8 million in Q2 2011, a positive variance of \$29.0 million. The gain in Q2 2012 resulted from a 3.1% strengthening of the Canadian dollar compared to the Euro between Q1 2012 and Q2 2012 from \$1.33:€1 in the prior quarter to \$1.29:€1 at June 30, 2012, as well as the financial instruments designated as hedges of self sustaining foreign operations no longer being deemed effective.
- Investment properties under development saw a fair value decrease of \$7.5 in Q2 2012 compared to a fair value decrease of \$14.2 in Q2 2011.

FFO, net of the sale of properties developed for resale, was \$7.0 million in Q2 2012 compared to \$(1.8) million in Q2 2011 for a positive variance of \$8.8 million.

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*First Quarter 2012 Results*

Property revenues from continuing operations were \$31.0 million during the first quarter ended March 31, 2012, compared to \$32.3 million for the same quarter in 2011 for a decrease of \$1.3 million. The average Canadian dollar foreign exchange rate versus the Euro was 2.5% higher in Q1 2012 versus Q1 2011, which negatively impacted the results.

Net operating income (NOI) was \$25.1 million in the first quarter of 2012, compared to \$25.8 million in the first quarter of 2011 for a decrease of \$0.7 million.

The Company incurred a loss before taxes from continuing operations for the first quarter of 2012 of \$9.6 million (\$0.48 per share), compared to earnings before taxes of \$0.3 million in the same period in 2011 (\$0.02 per share), an unfavourable variance of \$9.9 million. The decrease relates primarily to the following:

- A net decrease in fair value of investment properties of \$5.9 million in Q1 2012 compared to a net increase in fair market value of \$15.7 million in Q1 2011.
- In Q3 2011 the Company began incurring expenses relating to CCAA filings. For Q1 2012 these amounted to \$8.2 million.
- Higher interest expense in Q1 2012 by \$4.1 million over Q1 2011, due to a combination of the Homburg Capital Securities A being reclassified to debt, and interest no longer being capitalized on development properties.

Offset by:

- A foreign exchange loss of \$4.7 million was recorded in Q1 2012, compared to a loss of \$10.2 million in Q1 2011, a positive variance of \$5.5 million. The loss in Q1 2012 resulted from a 0.7% weakening of the Canadian dollar compared to the Euro between Q4 2011 and Q1 2012 from \$1.32:€1 in the prior quarter to \$1.33:€1 at March 31, 2012, as well as the financial instruments designated as hedges of self sustaining foreign operations no longer being deemed effective.
- A gain on sale of investments of \$4.4 million in Q1 2012, combined with a share of loss of an associate of \$9.6 million in Q1 2011, for a positive fluctuation of \$14.0 million. In Q1 2011 the Company recorded a gain from the sale of its remaining ownership in CANMARC, while in the previous year the \$9.6 million loss stemmed from a public offering of Units completed by CANMARC (formerly Homburg Canada REIT) on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership.

FFO, net of the sale of properties developed for resale, was \$11.4 million in Q1 2012 compared to \$0.2 million in Q1 2011 for a positive variance of \$11.2 million.

*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 a decrease 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 million 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.

*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:

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- 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.

**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>
<b>Six months ended June 30, 2012</b>					
Property revenue	\$ 29.0	\$ 14.0	\$ 9.3	\$ 9.1	\$ 61.4
Operating expenses	<u>0.9</u>	<u>2.6</u>	<u>2.7</u>	<u>5.1</u>	<u>11.3</u>
Net operating income	<u>\$ 28.1</u>	<u>\$ 11.4</u>	<u>\$ 6.6</u>	<u>\$ 4.0</u>	<u>\$ 50.1</u>
Occupancy rate at June 30, 2012	100.0 %	59.8 %	78.8 %	85.9 %	
<b>Six months ended June 30, 2011</b>					
Property revenue	\$ 30.4	\$ 16.4	\$ 9.0	\$ 8.4	\$ 64.2
Operating expenses	<u>0.8</u>	<u>3.8</u>	<u>2.5</u>	<u>6.1</u>	<u>13.2</u>
Net operating income	<u>\$ 29.6</u>	<u>\$ 12.6</u>	<u>\$ 6.5</u>	<u>\$ 2.3</u>	<u>\$ 51.0</u>
Occupancy rate at June 30, 2011	100.0 %	60.4 %	77.3 %	87.7 %	
<b>Three months ended June 30, 2012</b>					
Property revenue	\$ 14.3	\$ 7.0	\$ 4.4	\$ 4.7	\$ 30.4
Operating expenses	<u>0.3</u>	<u>1.5</u>	<u>1.1</u>	<u>2.5</u>	<u>5.4</u>
Net operating income	<u>\$ 14.0</u>	<u>\$ 5.5</u>	<u>\$ 3.3</u>	<u>\$ 2.2</u>	<u>\$ 25.0</u>
<b>Three months ended June 30, 2011</b>					
Property revenue	\$ 15.3	\$ 8.2	\$ 4.3	\$ 4.2	\$ 32.0
Operating expenses	<u>0.5</u>	<u>1.8</u>	<u>1.1</u>	<u>3.4</u>	<u>6.8</u>
Net operating income	<u>\$ 14.8</u>	<u>\$ 6.4</u>	<u>\$ 3.2</u>	<u>\$ 0.8</u>	<u>\$ 25.2</u>

Total property revenue was \$61.4 million in 2012, compared to \$64.2 million in 2011, a decrease of \$2.8 million or 4.4%. This was primarily due to a decrease of 4.7% in the average Euro foreign exchange rate compared to the Canadian dollar which negatively impacted the Germany, The Netherlands and the Baltic States revenue.

Property revenue from the North America segment increased to \$9.1 million in 2012 compared to \$8.4 million in 2011. This was partially due to the average USD foreign exchange rate compared to the Canadian dollar being higher in 2012 compared to 2011 by 3.0%. As well, there was a new revenue stream from the hotel situated in Charlottetown, Prince Edward Island which commenced operations in Q3 2011.

Property operating expenses decreased by \$1.0 million in the North America segment to \$5.1 million in 2012 compared to \$6.1 million in 2011. The European segments experienced a decrease in property operating expenses from a total of \$7.1 million in 2011 to \$6.2 million in 2012 for a variance of \$0.9 million or 12.7%, largely due to a bad debt expense recognized in Q1 2011 for a Dutch property.

NOI decreased by 1.8% in 2012 compared to 2011 as a result of the foreign exchange fluctuations discussed above.

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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>
<b>Six months ended June 30, 2012</b>					
Property revenue	\$ 9.7	\$ 7.1	\$ 44.6	\$	\$ 61.4
Operating expenses	<u>3.3</u>	<u>1.6</u>	<u>6.1</u>	<u>0.3</u>	<u>11.3</u>
Net operating income	<u>\$ 6.4</u>	<u>\$ 5.5</u>	<u>\$ 38.5</u>	<u>\$ (0.3)</u>	<u>\$ 50.1</u>
Occupancy rate at June 30, 2012	75.4 %	61.9 %	83.5 %		
<b>Six months ended June 30, 2011</b>					
Property revenue	\$ 9.1	\$ 7.0	\$ 48.1	\$	\$ 64.2
Operating expenses	<u>2.5</u>	<u>1.8</u>	<u>8.4</u>	<u>0.5</u>	<u>13.2</u>
Net operating income	<u>\$ 6.6</u>	<u>\$ 5.2</u>	<u>\$ 39.7</u>	<u>\$ (0.5)</u>	<u>\$ 51.0</u>
Occupancy rate at June 30, 2011	70.9 %	56.2 %	87.0 %		
<b>Three months ended June 30, 2012</b>					
Property revenue	\$ 4.9	\$ 3.5	\$ 22.0	\$	\$ 30.4
Operating expenses	<u>1.8</u>	<u>0.7</u>	<u>2.8</u>	<u>0.1</u>	<u>5.4</u>
Net operating income	<u>\$ 3.1</u>	<u>\$ 2.8</u>	<u>\$ 19.2</u>	<u>\$ (0.1)</u>	<u>\$ 25.0</u>
<b>Three months ended June 30, 2011</b>					
Property revenue	\$ 4.5	\$ 3.3	\$ 24.1	\$	\$ 32.0
Operating expenses	<u>1.2</u>	<u>1.0</u>	<u>4.3</u>	<u>0.3</u>	<u>6.8</u>
Net operating income	<u>\$ 3.3</u>	<u>\$ 2.3</u>	<u>\$ 19.8</u>	<u>\$ (0.3)</u>	<u>\$ 25.2</u>

The retail portfolio consists of 8 (December 31, 2011 - 8) 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 6.6% while net operating income for 2012 on the properties held on June 30, 2012 has decreased 3.0% over the same period in 2011, 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, 2011 - 28) industrial buildings located in Europe with a total area of 2.1 million square feet. The Company's industrial buildings generated \$7.1 million total rental revenue in 2012 and \$5.5 million in net operating income compared to \$7.0 million total rental revenue in 2011 and \$5.2 million in net operating income. Overall occupancy in the industrial portfolio remains low - 61.9% at June 30, 2012 (56.2% - June 30, 2011) as there are several industrial properties still affected by the real estate economy slump in Europe. The modest increase in occupancy was mostly offset by the previously discussed foreign exchange decrease in the Euro, resulting in a small revenue increase of \$0.1 million.

The office portfolio consists of 77 (December 31, 2011 - 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 2012 was \$44.6 million compared to \$48.1 million in the same period of 2011 while net operating income was \$38.5 million versus \$39.7 million in 2011. Operations have been fairly stable in this segment, but the decrease is due to the overall occupancy in the office portfolio declining to 83.5% at June 30, 2012 from 87.0% at June 30, 2011.

*Properties Developed for Resale*

Revenue from the sale of properties developed for resale increased by \$6.0 million from \$5.0 million in 2011 to \$11.0 million in 2012. Net loss from the sale of development properties was \$0.8 million in 2012, compared to a net loss of \$0.5 million in 2011.

**BALANCE SHEET HIGHLIGHTS**

*Assets*

Total assets decreased from \$1.7 billion at December 31, 2011 to \$1.5 billion at June 30, 2012. The table below summarizes Homburg Invest's asset base.

	<u>June 30</u> <u>2012</u>	December 31 <u>2011</u>
	<i>(Millions)</i>	<i>(Millions)</i>
Investment properties	\$ 1,090.5	\$ 1,224.3
Investment properties under development	141.3	143.8
Investments, at fair market value	7.4	148.5
Deferred tax assets	-	1.0
Restricted cash	126.2	8.5
Cash and cash equivalents	11.8	20.5
Properties under development for resale	16.9	26.5
Receivables and other	32.6	31.5
Assets classified as held for sale	<u>116.3</u>	<u>123.7</u>
	<u>\$ 1,543.0</u>	<u>\$ 1,728.3</u>

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*Investment Properties and Investment Properties under Development*

Investment properties decreased by \$133.8 million from \$1,224.3 million at December 31, 2011 to \$1,090.5 million at June 30, 2012, primarily due to \$108.3 million of negative fair value adjustments. As well, the impact of foreign currency translation adjustments on overseas assets relating to the difference between the Canadian dollar and Euro foreign exchange rate of \$1.29:€1 at June 30, 2012 compared to \$1.32:€1 at December 31, 2011, a decrease of approximately 2.3% which equates to a \$29.1 million decrease. Investment properties under development decreased by \$2.5 million from \$143.8 million to \$141.3 million at June 30, 2012 due to sales during the period.

*Assets classified as Held for Sale*

Assets held for sale decreased by \$7.4 million from \$123.7 million at December 31, 2011 to \$116.3 million at June 30, 2012. 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 third 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 \$7.4 million at June 30, 2012 compared to \$148.5 million at December 31, 2011. The difference relates primarily to the sale of the remaining CANMARC Units during the first quarter of 2012.

*Capital Structure*

The table below summarizes Homburg Invest's capital structure.

	<b>June 30, 2012</b>		<b>December 31, 2011</b>	
	<b>(Millions)</b>		<b>(Millions)</b>	
Long term debt	\$ 938.6	71.5 %	\$ 987.7	65.7 %
Construction financing	32.1	2.4 %	32.4	2.2 %
Homburg Capital Securities A	34.5	2.6 %	35.4	2.4 %
Liabilities to be compromised - Corporate non-asset backed bonds	399.7	30.4 %	409.5	27.2 %
Liabilities to be compromised - Mortgage bonds	132.1	10.1 %	135.4	9.0 %
Liabilities to be compromised - Long term debt	14.7	1.1 %	14.7	1.0 %
Liabilities to be compromised - Junior subordinated notes	52.7	4.0 %	53.4	3.6 %
MoTo Objekt Campeon GmbH & Co KG	10.1	0.8 %	10.3	0.7 %
Non-construction demand loans	5.6	0.4 %	5.6	0.4 %
Liabilities related to assets classified as held for sale	83.1	6.3 %	87.9	5.8 %
	<u>1,703.2</u>	<u>129.6 %</u>	<u>1,772.3</u>	<u>118.0 %</u>
Shareholders' equity	<u>(389.5)</u>	<u>(29.6)%</u>	<u>(270.3)</u>	<u>(18.0)%</u>
	<u>\$ 1,313.7</u>	<u>100.0 %</u>	<u>\$ 1,502.0</u>	<u>100.0 %</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 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 \$49.0 million during 2012. This was primarily due to a principal repayment made on the debt on the Munich property, and was partially offset by the previously discussed foreign exchange rate changes on the EUR denominated debt. Mortgage principal maturities include loans of \$429.0 million which were in default of their lending covenants at June 30, 2012 and accordingly have been classified as falling due during the next year.

The mortgage bonds payable balance of \$132.1 million was reclassified from long term debt to liabilities subject to compromise as at June 30, 2012. The Mortgage Bonds are recorded at the prevailing exchange rate at June 30, 2012.

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 \$399.7 million was reclassified from long term debt to liabilities subject to compromise as at June 30, 2012.

The junior subordinated notes consist of EUR €25.0 million (\$32.2 million) (December 31, 2011 - EUR €25.0 million (\$33.0 million)) and USD \$20.0 million (\$20.5 million) (December 31, 2011 - USD \$20.0 million (\$20.4 million)), and were in default of the interest coverage ratio and the net worth covenant ratio during the periods ended June 30, 2012 and 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 June 30, 2012, the Company had \$32.1 in construction financing outstanding relating to its development projects outlined earlier, which is included in liabilities to be compromised.

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*Shareholders' Equity*

Homburg Invest's shareholders' equity decreased \$119.2 million from \$(270.3) million at December 31, 2011 to \$(389.5) million at June 30, 2012. The decrease resulted from a \$115.1 million net loss in the period along with \$4.0 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 June 30, 2012, the cumulative loss was \$14.2 million; a decrease of \$15.4 million from the accumulated gain amount of \$1.2 million as at December 31, 2011.

**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 unaudited interim condensed consolidated financial statements for further discussion.

The Company is significantly levered with no book equity at June 30, 2012 or December 31, 2011 (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the period ended June 30, 2012, Homburg Invest had total interest expense coverage from continuing operations of 0.50:1 (June 30, 2011 - 0.85:1) (calculated as property revenue, less property operating expenses, expenses relating to CCAA filings and general and administrative expenses ÷ interest expense (excluding capitalized interest)).

The following table presents the Company's contractual obligations at June 30, 2012, 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.

(Millions)

**Contractual Obligations**

**Payments Due by Period**

	<b>Within 1 year</b>	<b>1-2 years</b>	<b>2-3 years</b>	<b>3-4 years</b>	<b>4-5 years</b>	<b>Later</b>
Head and ground leases	0.2	0.2	0.2	0.2	0.2	3.3
Mortgages: Normal principal installments	12.6	11.5	11.7	9.2	8.7	
Interest	24.5	23.1	20.8	19.8	17.0	
Principal maturities	11.7	33.1		23.3	24.9	362.9
Derivative financial instruments	30.8					
Other current payables	10.1					
Working capital deficit (i)	799.8					
Mortgage principal: covenant breach	429.0					
	<b>1,318.7</b>	<b>67.9</b>	<b>32.7</b>	<b>52.5</b>	<b>50.8</b>	<b>366.2</b>

- (i) The working capital deficit of \$799.8 million consists of cash of \$11.8 million, trade receivables of \$30.1 million, less payables of \$26.3 million, income taxes payable of \$5.6 million, related party payable of \$1.2 million, liabilities subject to compromise of \$808.5, 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 obtained from the prior sale of CANMARC units 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*

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 \$618.1 million in fixed rate debt and \$320.4 million in floating rate debt (before deferred financing charges). The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €118.3 million (\$152.6 million) (December 31, 2011 - EUR €119.3 million (\$157.6 million)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the period ended June 30, 2012, the impact on the consolidated statement of loss is a loss of \$4.6 million (June 30, 2011 - gain of \$3.4 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 \$2.3 million in the Company's earnings as a result of the impact on floating rate borrowings.



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*Credit risk*

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$11.2 million (December 31, 2011 - \$13.2 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 37.8% 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 (\$96.7 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 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). 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 \$8.1 million and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9.3 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 \$(0.2) million and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1.5 million after income taxes.

The Balance Sheets of the Company's foreign 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 foreign operations is reflected in the other comprehensive income of the Company 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 37.8% (December 31, 2011 - 38.0%) of property revenue for the period. 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 \$519.2 million at June 30, 2012 (December 31, 2011 - \$534.1 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.

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*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.

**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 2012</u> (Millions)	<u>Fair Value 2012</u> (Millions)	<u>Carrying Value 2011</u> (Millions)	<u>Fair Value 2011</u> (Millions)
<b>Held for Trading</b>					
Long term investments: others (a)	Fair value (L1)	\$ 1.3	\$ 1.3	\$ 22.0	\$ 22.0
Long term investments: HEEF B.V. (a)	Fair value (L3)	6.1	6.1	6.3	6.3
Cash and cash equivalents (b)	Fair value (L1)	11.8	11.8	20.5	20.5
Investments (b)	Fair value (L1)			120.2	120.2
Derivative instrument liability (b)	Fair value (L2)	(30.8)	(30.8)	(26.9)	(26.9)
		<u>\$ (11.6)</u>	<u>\$ (11.6)</u>	<u>\$ 142.1</u>	<u>\$ 142.1</u>
<b>Loans and Receivables</b>					
Restricted cash (c)	Amortized cost	\$ 126.2	\$ 126.2	\$ 8.5	\$ 8.5
Receivables and other (c)	Amortized cost	32.6	32.6	31.5	31.5
		<u>\$ 158.8</u>	<u>\$ 158.8</u>	<u>\$ 40.0</u>	<u>\$ 40.0</u>
<b>Other Financial Liabilities</b>					
Accounts payable and other (c)	Amortized cost	\$ 155.3	● <sub>1</sub>	\$ 152.5	● <sub>1</sub>
Mortgages (d)	Amortized cost	938.6	● <sub>1</sub>	987.6	● <sub>1</sub>
Mortgage bonds (d)	Amortized cost	132.1	● <sub>1</sub>	135.4	● <sub>1</sub>
Corporate non-asset backed bonds (d)	Amortized cost	399.7	● <sub>1</sub>	409.5	● <sub>1</sub>
Junior subordinated notes (d)	Amortized cost	52.7	● <sub>1</sub>	53.4	● <sub>1</sub>
Deferred financing charges (d)	Amortized cost	0.1	● <sub>1</sub>	0.2	● <sub>1</sub>
Construction financing (c)	Amortized cost	32.1	● <sub>1</sub>	32.4	● <sub>1</sub>
		<u>\$ 1,710.6</u>	<u>●<sub>1</sub></u>	<u>\$ 1,771.0</u>	<u>●<sub>1</sub></u>

Note 1 - The risks associated with CCAA could impact the amounts presented as Fair Value at June 30, 2012 and 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 2011 or 2012.

(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 gain of \$0.1 resulting from the change in fair values of investments was recorded in the consolidated statement of loss during the period ended June 30, 2012 (2011 - nominal loss) (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 \$4.6 million during the period ended June 30, 2012 in the consolidated statement of loss (2011 - gain of \$3.4 million).

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- (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 unaudited interim condensed consolidated financial statements could impact the amounts presented as Fair Value of financial liabilities at June 30, 2012 and 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 unaudited interim condensed consolidated financial statements could impact the amounts presented as Fair Value of financial liabilities at June 30, 2012 and 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 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:

	<b>Three Months Ended June 30 2012 (Thousands)</b>	<b>Three Months Ended June 30 2011 (Thousands)</b>	<b>Six Months Ended June 30 2012 (Thousands)</b>	<b>Six Months Ended June 30 2011 (Thousands)</b>
Rental revenue earned	\$ (25)	\$ (22)	\$ (25)	\$ (45)
Interest Income	\$	\$ (328)	\$	\$ (642)
Asset and construction management fees (n)	\$ 237	\$ 1,849	\$ 837	\$ 3,701
Property management fees incurred (n)	\$ 208	\$ 537	\$ 487	\$ 1,051
Insurance costs incurred	\$ 17	\$ 21	\$ 34	\$ 38
Service fees incurred	\$	\$ 926	\$ 348	\$ 1,862
Property acquisition / disposal fees incurred (n)	\$	\$ 993	\$	\$ 993
Interest costs incurred (h)	\$ 33	\$ 444	\$ 66	\$ 885

- b) Included in trade payables is \$0.8 million (accounts payable - December 31, 2011 - \$4.1 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 two condominium units of \$0.4 million (December 31, 2011 - \$0.4 million) from the former Chairman and Chief Executive Officer. The units will be transferred to the former Chairman and Chief Executive Officer as part of the agreement with Homburg Canada Inc. (Note m)
- 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) A nominal amount of professional services (June 30, 2011 - \$0.2 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 \$1.2 million (December 31, 2011 - \$14.1 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 \$NIL (December 31, 2011 - \$1.1 million) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- h) Included in liabilities subject to compromise - non-construction demand loans is a promissory note payable in the amount of EUR €4.3 million (\$5.6 million) (December 31, 2011 - EUR €4.2 million (\$5.6 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).

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- i) 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 \$0.8 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 \$0.7 million included in property operating expenses for the period ended June 30, 2012. These head leases were resiliated on May 29, 2012.

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. During the period the Company sold its units in CANMARC, CANMARC currently holds the cash in trust in the amount of \$21.3, representing the net cash proceeds of the 1.3 million of Units sold related to the Headlease Pledge and Remediation Cost Pledge.

- j) 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 \$0.1 million included in property operating expenses for the period ended June 30, 2012.
- k) 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.
- l) 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 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 for the six months ending June 30:

	<u>2012</u>	<u>2011</u>
Short term employee benefits	\$ <u>0.8</u>	\$ _____

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

- m) During the 4th quarter of 2011 the Company entered into an agreement with Homburg Canada Inc. that was closed in the first quarter of 2012. 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 of this MD&A. The consideration payable by HII for the transaction is equal to \$13.6 million, subject to certain adjustments. It would be satisfied by cash payments totalling \$10.5 million which have been made, and other consideration.
- n) 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:

**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.

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**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. During the period, the closing of the agreement between the Company and Homburg Canada Inc. occurred and 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 June 20, 2012, the Company received approval from the CCAA court to proceed with the exercise of the Baltic options, which will enable HII to acquire control of the general partner of its Baltic subsidiaries. The Company completed this second option exercise, subsequent to period end.

b) Subsequent to period end, on July 13, 2012 the Claims Bar date closed. Approximately \$2.1 billion in claims have been filed to date. Approximately \$808.5 million of this amount has been accrued. The Monitor is now in the process of adjudicating the claims filed, and any claim found to be valid by the Monitor, that the Company has not accrued, will result in additional liabilities that are not currently accrued. The Company is not currently aware of any additional material claims, not recorded in these financial statements.

c) During the period the Company has agreed to surrender its investment in HEEF B.V. in the amount of \$6,109 (EUR €4,737), to satisfy the remaining amount due by the Company to HEEF B.V. of \$5,560 (EUR €4,312). 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. It is expected that the transfer of ownership of these units will occur in the subsequent quarter.

d) Subsequent to period end, the Company has notified certain banks that it will no longer fund cash flow deficiencies in certain properties. Standstill agreements have been reached with certain lenders to fund the deficiencies. These agreements are short term in nature and the Company continues to negotiate long term solutions to these properties with these lenders, should the parties not come to a mutual agreement the lender could call the debt.

e) Subsequent to period end, the CCAA Court approved the 5th extension of the general stay originally granted September 9, 2011, until September 14, 2012.

**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.

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*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%. HLPM, 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 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.
- 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 unaudited interim condensed 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.



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**CHANGES IN ACCOUNTING POLICIES**

Except for the impact of IAS 12 discussed below, the accounting policies adopted are consistent with those of the previous financial year.

*Future accounting standards and interpretations*

The Company has evaluated 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 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 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. Upon adoption of the amendment, the Company will presume an investment property will be realized entirely through sale, accordingly, where capital gains may arise, the applicable capital gains rate will apply. The revised standard is effective for periods ending on or after January 1, 2012 with restatement of comparative periods.

The amendment to IAS 12 does not have an impact on the Company's consolidated balance sheet for the prior years ended December 31, 2011 and 2010.

The non cash impact of the Company's adoption of the amendment to IAS 12 resulting from the impact of foreign currency translation on deferred income taxes in the consolidated statements of loss is as follows:

<i>Increase (decrease)</i>	<b>For the three months ended</b>			
	<b>Mar 31, 2011</b>	<b>Jun 30, 2011</b>	<b>Sept 30, 2011</b>	<b>Dec 31, 2011</b>
Deferred income taxes expense	\$ <u>(2.1)</u>	\$ <u>(1.6)</u>	\$ <u>0.0</u>	\$ <u>3.7</u>
Net income (loss) from continuing operations	\$ <u>2.1</u>	\$ <u>1.6</u>	\$ <u>0.0</u>	\$ <u>(3.7)</u>
Net income (loss)	\$ <u>2.1</u>	\$ <u>1.6</u>	\$ <u>0.0</u>	\$ <u>(3.7)</u>
Earnings per share	\$ <u>0.11</u>	\$ <u>0.08</u>	\$ <u>          </u>	\$ <u>(0.19)</u>

There were no material changes to the consolidated statements of cash flows.

*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 has evaluated IAS 1 and does not believe this standard will have a material impact on its consolidated financial statements.

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*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 currently evaluating the impact of IAS 28 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).

**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 throughout 2012, and the Company has concluded that those controls were not effective as of June 30, 2012. As a result, the Company has concluded that its disclosure controls and procedures were not effective as of June 30, 2012. 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.

**OTHER REQUIREMENTS**

- (a) Additional information relating to Homburg Invest, including our Annual Information Form (AIF) is on our website at [www.homburginvest.com](http://www.homburginvest.com) and at SEDAR at [www.sedar.com](http://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](http://www.sedar.com).
- (c) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at June 30, 2012, 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.

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 52-109F2**  
**Certification of Interim Filings - Full Certificate**

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

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Homburg Invest Inc. (the "issuer") for the interim period ended ended June 30, 2012.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer's other certifying officer(s) 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(s) and I have, as at the end of the period covered by the interim filings
  - (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 interim 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(s) 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 interim MD&A for each material weakness relating to design existing at the end of the interim period
  - (a) a description of the material weakness;

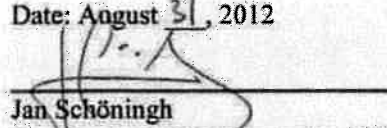


- (b) the impact of the material weakness on the issuer's financial reporting and its ICFR; and
- (c) the issuer's current plans, if any, or any actions already undertaken, for remediating the material weakness.

5.3 N/A

- 6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2012 and ended on June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 31, 2012

  
\_\_\_\_\_  
Jan Schönningh  
President and Chief Executive Officer of Homburg Invest Inc.

**Form 52-109F2**  
**Certification of Interim Filings - Full Certificate**

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

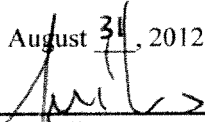
1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Homburg Invest Inc. (the “issuer”) for the interim period ended ended June 30, 2012.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim 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, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer(s) 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(s) and I have, as at the end of the period covered by the interim filings
  - (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 interim 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(s) 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 interim MD&A for each material weakness relating to design existing at the end of the interim period
  - (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. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on April 1, 2012 and ended on June 30, 2012 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: August 31, 2012

  
\_\_\_\_\_  
James F. Miles  
Chief Financial Officer of Homburg Invest Inc.