Homburg Invest Inc.
Consolidated Financial Statements
Canadian GAAP

December 31, 2009

Contents

AUDITORS' REPORT

To the Shareholders of
Homburg Invest Inc.

We have audited the consolidated balance sheet of **Homburg Invest Inc.** (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of earnings (loss), comprehensive earnings (loss), accumulated other comprehensive earnings (loss), and retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Halifax, Canada
March 30, 2010

Chartered Accountants

Homburg Invest Inc.
Consolidated Balance Sheet

(CAD $ thousands except per share amounts)	**December 31 2009**	December 31 2008 Restated (Note 30)
Assets		
Investment properties (Note 9)	**$ 2,714,594**	$ 3,207,540
Development properties (Note 8)	**344,856**	360,562
Long term investments (Note 6)	**24,204**	40,086
Intangible assets (Note 11)	**66,347**	109,841
Restricted cash (Note 7)	**23,159**	25,789
Cash	**32,569**	16,359
Receivables and other (Note 5)	**101,619**	133,030
Currency guarantee receivable (Notes 14, 22j and 30)		23,594
Assets held for resale (Note 16)	**59,374**	96,709
	$ 3,366,722	$ 4,013,510
Liabilities		
Long term debt (Note 14)	**$ 2,641,724**	$ 2,916,701
Accounts payable and other liabilities (Note 12)	**222,493**	256,587
Liabilities held for resale (Note 16)	**41,028**	69,376
Construction financing (Note 13)	**94,999**	102,433
Future income taxes (Note 15)	**28,191**	124,415
Intangible liabilities (Note 11)	**12,656**	15,429
Derivative financial instrument (Note 20)	**24,045**	19,427
	3,065,136	3,504,368
Shareholders' equity (Note 17)	**301,586**	509,142
	$ 3,366,722	$ 4,013,510

Basis of presentation (Note 1)
Commitments (Note 23)
Contingent liabilities (Note 24)
Subsequent events (Note 28)

Approved by the Board, March 30, 2010

"Signed"	"Signed"
Richard Homburg, Phzn., D. Comm.	Edward P. Ovsenny
Director	Director

The accompanying notes are an integral part of these consolidated financial statements prepared in accordance with Canadian GAAP.
The Company also prepares consolidated financial statements in accordance with IFRS.

Homburg Invest Inc.
Consolidated Statement of Earnings (Loss)
Year Ended December 31

(CAD $ thousands except per share amounts)	**2009**	2008
Property revenue	**$ 307,731**	$ 299,311
Sale of properties developed for resale	**63,884**	191,260
Dividend income	**1,539**	2,992
Other income	**1,695**	1,849
Foreign exchange gain	**24,201**	
Gain on sale of assets	**2,239**	443
	401,289	495,855
Property operating expenses	**100,354**	82,113
Cost of sale of properties developed for resale	**107,767**	142,841
Interest on long term debt	**149,531**	151,035
Interest and financing costs	**7,631**	11,916
Depreciation and amortization	**65,074**	62,097
General and administrative	**23,411**	23,268
Stock based compensation	**146**	307
Foreign exchange loss		19,656
Loss on derivative instruments	**7,486**	18,542
Goodwill impairment loss (Note 10)		63,456
Impairment loss on development properties (Note 8)	**49,112**	
Impairment loss on investment properties (Note 9)	**182,006**	
Loss on fair value change in investments (Note 6)	**1,189**	23,133
	693,707	598,364
Loss before income taxes	**(292,418)**	(102,509)
Income tax recovery (Note 15)	**(45,165)**	(4,715)
Net loss from continuing operations	**(247,253)**	(97,794)
Net earnings (loss) from discontinued operations (Note 16)	**(437)**	1,711
Net loss	**$ (247,690)**	$ (96,083)

Earnings (Loss) per share (Note 18)		
Per Class A Subordinate Voting Share and Class B Multiple Voting Share:		
Basic and Diluted		
Net loss from continuing operations	**$ (12.52)**	$ (4.94)
Net earnings (loss) from discontinued operations	**$ (0.02)**	$ 0.09
Net loss per share	**$ (12.54)**	$ (4.85)

The accompanying notes are an integral part of these consolidated financial statements prepared in accordance with Canadian GAAP.
The Company also prepares consolidated financial statements in accordance with IFRS.

Homburg Invest Inc.
Consolidated Statement of Comprehensive Earnings (Loss)
Year Ended December 31

(CAD $ thousands except per share amounts)	**2009**	2008
Net loss	**$ (247,690)**	$ (96,083)
Other comprehensive loss:		
Unrealized foreign currency translation gain (loss)	**(84,451)**	100,659
Future income tax recovery (expense) (Note 15, 17)	**43,739**	(43,616)
	(40,712)	57,043
Foreign currency gain (loss) on financial instruments designated as hedges of self sustaining foreign operations	**51,485**	(65,193)
Other comprehensive income (loss) (Note 17)	**10,773**	(8,150)
Comprehensive loss	**$ (236,917)**	$ (104,233)

Consolidated Statement of Accumulated Other Comprehensive Earnings (Loss)
Year Ended December 31

(CAD $ thousands except per share amounts)	**2009**	2008
Accumulated other comprehensive loss, beginning of year	**$ (24,038)**	$ (15,888)
Other comprehensive earnings (loss)	**10,773**	(8,150)
Accumulated other comprehensive loss, end of year	**$ (13,265)**	$ (24,038)

Consolidated Statement of Retained Earnings (Deficit)
Year Ended December 31

(CAD $ thousands except per share amounts)	**2009**	2008
Earnings (deficit), as previously reported beginning of year	**$ (184,050)**	$ 5,494
Prior period adjustment (Note 30)		(4,571)
Earnings (deficit), as restated beginning of year	**$ (184,050)**	$ 923
Net loss	**(247,690)**	(96,083)
Dividends		(88,213)
Dividend related to DIM Vastgoed N.V. dividend guarantee	**(260)**	(677)
Homburg Capital Securities A, accretion in equity component (Note 17d)	**(1,228)**	
Deficit, end of year	**$ (433,228)**	$ (184,050)

The accompanying notes are an integral part of these consolidated financial statements prepared in accordance with Canadian GAAP.
The Company also prepares consolidated financial statements in accordance with IFRS.

Homburg Invest Inc.
Consolidated Statement of Cash Flows
Year Ended December 31

(CAD $ thousands except per share amounts)	**2009**	2008
Cash obtained from (used in)		
Operating activities		
Net loss from continuing operations	**$ (247,253)**	$ (97,794)
Items not affecting cash:		
Gain on sale of assets	**(2,239)**	(443)
Loss on derivative instruments	**7,486**	18,542
Impairment loss on development properties	**49,112**	
Impairment loss on investment properties	**182,006**	
Goodwill impairment loss		63,456
Depreciation and amortization	**65,074**	62,097
Amortization of financing fees	**4,887**	9,400
Amortization of above and below-market leases	**4,832**	887
Deferred rental income	**(9,408)**	(14,007)
Future income taxes	**(39,011)**	(15,614)
Stock based compensation	**146**	307
Non-cash change in investments	**(4,717)**	23,133
Accretion of discounted liabilities	**1,453**	128
Foreign exchange (gain) loss	**(24,201)**	19,656
	(11,833)	69,748
Change in non-cash working capital and other (Note 19)	**71,097**	21,504
Net cash from (used in) continuing operations	**59,264**	91,252
Net cash from discontinued operations (Note 16)	**(1,582)**	2,883
Net cash from operating activities	**57,682**	94,135
Investing activities		
Investment in investment properties and intangibles	**(16,806)**	(52,163)
Proceeds on sale of investment properties		698
Decrease (increase) in restricted cash	**2,630**	1,735
Proceeds on sale of investments	**13,946**	
Purchase of long term investments	**(8,330)**	(6,678)
Investment in development properties	**(55,653)**	(97,764)
Discontinued operations (Note 16)	**11,197**	423
Net cash used in investing activities	**(53,016)**	(153,749)
Financing activities		
Increase (decrease) in demand loans	**(10,468)**	(362,645)
Increase (decrease) in mortgages payable	**15,844**	274,354
Proceeds from bonds	**11,043**	146,196
Decrease (increase) in deferred financing charges	**(2,318)**	(13,918)
Decrease (increase) in related party receivable	**(10,220)**	
Repurchase of common shares and issue costs	**(1,346)**	(836)
Dividends paid		(20,853)
Increase (decrease) in construction financing	**(7,434)**	36,040
Increase (decrease) in related party payable	**(13,778)**	6,361
Proceeds from Homburg Capital Securities A (Note 17)	**37,116**	
Discontinued operations (Note 16)	**(6,895)**	(6,653)
Net cash from (used in) financing activities	**11,544**	58,046
Increase (decrease) in cash	**16,210**	(1,568)
Cash, beginning of year	**16,359**	17,927
Cash, end of year	**$ 32,569**	$ 16,359

Supplemental cash flow information (Note 19)

The accompanying notes are an integral part of these consolidated financial statements prepared in accordance with Canadian GAAP.
The Company also prepares consolidated financial statements in accordance with IFRS.

1. Basis of financial statement presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a historical cost basis, except for certain long term investments and derivative financial instruments which are measured at fair value as more fully described in Note 4. As Homburg Invest Inc. (the "Company") is listed on the NYSE Euronext Amsterdam ("AEX"), the Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The Company has been negatively impacted by global economic and current capital market conditions which have resulted in tightening lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company incurred net losses of $247,690 and $96,083 for the years ended December 31, 2009 and 2008, respectively, and is highly levered with a debt to equity ratio of 9.4:1 at December 31, 2009 (Note 21). Certain of the Company's debts are in breach of covenants. As a result of the Company's limited partnership structure, with respect to certain debts the recourse of the lender is generally limited to the specific assets held in or below the limited partnerships, and does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs. The Company's liquidity risks and actions being pursued to generate additional liquidity are more fully described in Note 20.

The consolidated financial statements of the Company have been prepared on a basis which contemplates the Company having sufficient liquidity to realize its assets and to discharge its liabilities in the normal course of business for the foreseeable future and do not give effect to any adjustments to recorded amounts and their classification should the Company be unable to realize its assets and discharge its liabilities in the normal course of business and at the amounts reflected in these consolidated financial statements.

2. Nature of operations

Homburg Invest Inc., a corporation incorporated under the laws of Alberta, Canada, is listed on the Toronto Stock Exchange ("TSX") and the NYSE Euronext Amsterdam ("AEX"). The Class A Subordinate Voting Shares trade under the symbol "HII.A", and the Class B Multiple Voting Shares trade as "HII.B" on the TSX, and the Class A Subordinate Voting Shares trade under the symbol "HII" on the AEX. The principal place of business is 1741 Brunswick Street, Suite 600, Halifax, Nova Scotia B3J 3X8, Canada. The Company is directly and indirectly controlled by Mr. Richard Homburg, the Chairman and Chief Executive Officer ("CEO"), through holding companies. 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").

On December 16, 2009, the Company announced a major reorganization which will involve the division of its real estate assets among five new entities which will be owned or initially controlled by the Company. The reorganization is expected to occur in several stages and is subject to market conditions and necessary regulatory approvals (Note 28).

3. Change in accounting policies

In October 2008, the Canadian Institute of Chartered Accountants ("CICA") concurrently issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". Section 1582, which will replace Section 1581 "Business Combinations", establishes standards for the measurement of a business combination, and for the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which will replace Section 1600 "Consolidated Financial Statements", continues the existing guidance on aspects related to the preparation of consolidated financial statements subsequent to acquisition, other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011 and early adoption is permitted at the start of a fiscal year. The Company has determined that it will not adopt these new standards prior to adopting IFRS.

On January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets". The new section establishes standards for recognition, measurement and disclosure and replaces existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new standard was applied retroactively which resulted in certain comparative amounts being reclassified (Note 30).

On January 20, 2009 the CICA issued a new Emerging Issues Committee ("EIC") abstract EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not significantly impact the Company's financial statements.

In December 2008, amendments to CICA Financial Instrument Sections 3855 "Recognition and Measurement", 3861 "Disclosure and Presentation", and 3862 "Disclosures", were issued to provide companies with the ability to reclassify financial assets out of the "held-for-trading" and "available-for-sale" categories in certain circumstances. The amendments are applicable to the Company for its annual period beginning January 1, 2009, on a prospective basis. The adoption of these amendments did not significantly impact the Company's financial statements. In addition, Section 3862 was amended to require certain additional disclosures which have been provided in Note 20.

4. Summary of significant accounting policies

General and consolidation
These consolidated financial statements are prepared in accordance with Canadian GAAP. The Company's accounting policies and its financial disclosures are in accordance with recommendations of the CICA. The consolidated financial statements comprise the financial statements of the Company and the entities that it controls as at December 31 each year. Control is present when a company has the power, directly or indirectly, to control the financial and operational policies of the controlled entity. The Company consolidates the entities that it controls from the moment it achieves control until the time this control ceases. Entities subject to joint control arrangements are proportionally consolidated based upon the Company's interest (Note 27). The financial statements of the consolidated and proportionately consolidated entities are prepared for the same reporting year as the parent company, using consistent accounting policies.

Investment Properties
Investment properties are carried at cost less accumulated depreciation and impairment charges, if any. Depreciation on buildings and railways is provided on the straight-line basis over the estimated remaining useful lives of the asset to a maximum of 60 years. Depreciation is determined with reference to each rental asset's carried value, remaining estimated useful life and residual value. Lessor owned tenant improvements subsequent to initial tenant improvements are capitalized and amortized over the lives of the leases to which they relate. Pavement and equipment are depreciated using the declining balance method at the annual rate of 8% and 20% respectively.

Development properties (other than those being developed for resale)
Development properties (other than those being developed for resale) consist of properties held for development or properties under construction. These properties are recorded at cost and are subject to periodic impairment testing.

Construction properties being developed for resale
Construction properties being developed 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. To the extent there have been write downs to net realizable value, the reversal of these write downs is subsequently recognized if the net realizable value recovers.

Impairment
An impairment loss is recognized on investment properties and development properties (other than those being developed for resale) when the carrying value exceeds the future undiscounted cash flows from use and eventual sale. Properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The impairment is measured as the amount by which the carrying value exceeds the estimated fair value. Any recorded impairment losses to these properties cannot be reversed.

Capitalization of costs
The Company capitalizes investment property acquisition costs incurred at the time of purchase. For development properties, the Company capitalizes all direct expenditures incurred in connection with the acquisition, development, construction, and initial predetermined leasing period, consisting of all direct construction and development costs, including borrowing costs on debt directly attributable to a specific property. Income relating directly to development properties during the development period is treated as a reduction of capitalized costs.

Revenue recognition
Revenue from development property is recognized upon the earlier of attaining a break-even point in cashflow after debt-servicing, the expiration of a predetermined period of time following substantial completion, or the attainment of substantial operations. Prior to this, the property is classified as a property under construction and any revenue is applied to reduce development costs.

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

Revenue on long term construction projects is recorded using the percentage of completion method. Completion is measured based on the extent of work completed in relation to the total project.

Gains and losses from the sale of properties are recorded when the purchaser has made a substantial commitment demonstrating intent to complete its obligations, collection of the sale proceeds is reasonably assured, and all other significant conditions respecting the transfer of rights and ownership are met. Properties which have been sold but have not satisfied all these criteria are included in properties held for resale in the consolidated balance sheet.

Income taxes
The Company follows the tax liability method for determining income taxes. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of specific balance sheet items. Future tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in earnings as they occur. Future income tax assets are recognized to the extent they are considered more likely than not to be realized.

Deferred leasing costs
The Company follows a policy of capitalizing costs associated with leasing commissions and amortizes such costs on a straight-line basis over the term of the related lease.

Deferred financing costs
Fees and costs incurred to obtain debt financing are capitalized to the related liability and subsequently measured at amortized cost using the effective interest rate method. The unamortized balance of deferred costs is included and shown as a reduction of the related long term debt.

4. Summary of significant accounting policies (cont.)

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

Foreign currency
Operations outside of Canada are considered to be self-sustaining and use their primary currency for recording substantially all transactions. The financial statements of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates while revenues and expenses are converted using the transaction date which is typically represented by average exchange rates. Gains and losses arising on translation of these subsidiaries are included in accumulated other comprehensive income within shareholders' equity. Gains or losses arising from the translation of foreign denominated monetary assets and liabilities and revenues and expenses not occurring within self-sustaining foreign operations are translated using the current rate method and included in the consolidated income statement in the applicable reporting period.

Stock options and contributed surplus
The Company has an equity-settled stock-based compensation plan (Note 17). Grants under this plan are accounted for in accordance with the fair value-based method of accounting for such plans.

Long term investments
The Company's investment in DEGI Homburg Harris Limited Partnership ("DEGI L.P.") , which owns an investment property in Canada currently under development, consists of units which are not traded in an active market. Accordingly, the investment is classified as available for sale and carried at cost, and is subject to testing for impairment in its carrying value. Any impairment in the value of the investment that is other than temporary would be recognized in the consolidated income statement. Other long term investments are classified as held for trading and measured at fair value. Any change in fair value during the year is included in the determination of net earnings for the year.

Amortization of intangible assets and liabilities
The values of above-market and below-market leases recognized upon the acquisition of investment property are amortized to revenue on a straight-line basis over the remaining term of the respective lease. Lease origination costs and other lease related intangibles recognized upon the acquisition of investment property are amortized to expense on a straight-line basis over the remaining term of the respective lease.

Derivative financial instruments
The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on certain of its long term debt. The current interest rate swaps do not qualify for hedge accounting and are adjusted to fair value and recognized in earnings in the reporting period. The Company has also entered into currency guarantee agreements related to mortgage bonds payable. These derivatives are adjusted to fair value and recognized in earnings in the reporting period.

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

Goodwill
On acquisition of a business, the underlying fair value of the net identifiable tangible and intangible assets is determined and goodwill is recognized to the extent the purchase price exceeds the fair value of identifiable net assets. Goodwill is not amortized, however it is tested for impairment at least annually. The impairment test determines whether the fair value of the reporting unit to which the goodwill has been attributed is less than the carrying value of the related reporting unit, including goodwill, thus indicating impairment. Impairment is measured based on the implied fair value of goodwill determined in the same manner as the amount of goodwill recognized in a business combination. Any impairment of goodwill is recorded as a separate charge against net earnings in the period of determination.

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

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

Use of estimates and measurement uncertainty
The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. One of the most significant areas requiring the use of estimates is with respect to the assessment of impairment of investment and development properties. Such assessments require estimates of the future cash flows to be generated over an estimated ownership period, the amount to be realized upon sale of the asset, an assessment of the Company's ability to refinance related debts, and the current fair value of assets that are determined to be impaired. Actual results could differ significantly from these estimates.

(CAD $ thousands except per share amounts)

5. Receivables and other

	2009	2008
Trade receivables	**$ 35,341**	$ 84,348
Deferred rental receipts	**45,847**	39,276
Related party receivable (Note 22h)	**10,220**	
Prepaids	**2,477**	3,966
Deferred leasing costs, net of accumulated amortization of $2,792 (2008 - $2,156)	**6,133**	5,440
Notes receivable	**1,601**	
	$ 101,619	$ 133,030

6. Long term investments

	2009	2008
Cedar Shopping Centers, Inc. (a)	**$ 607**	$ 683
Homburg Eastern European Fund B.V. (b)	**8,605**	10,265
DEGI L.P. (c)	**9,321**	10,635
DIM Vastgoed N.V. (d)		11,426
DIM Vastgoed N.V., October 2010 closing (e)	**5,671**	7,077
	$ 24,204	$ 40,086

(a) The Company holds 50,000 (December 31, 2008 - 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.

(b) 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.

(c) The investment in DEGI Homburg Harris Limited Partnership (“DEGI L.P.”) represents 10% of the limited partnership units. DEGI owns an investment property in Canada which was under development prior to construction being substantially completed on December 31, 2009. The partnership units are not traded in an active market. Accordingly, the investment is classified as available for sale and carried at cost, and is subject to testing for impairment in its carrying value.

(d) At December 31, 2008, the Company's investment in DIM Vastgoed N.V. ("DIM") consisted of deposit receipts representing 971,462 shares of DIM, a real estate investment company listed on the NYSE Euronext, and 266,214 directly owned shares. On January 9, 2009 (the "Agreement Date"), the Company entered into a Stock Exchange Agreement (the "Exchange Agreement") with Equity One Inc. ("Equity One" - NYSE:EQY), whereby it sold this investment in DIM in exchange for 866,373 shares of Equity One common stock, resulting in a gain on sale of $166. During the first two quarters of 2009, the Company disposed of all of its shares of Equity One and recognized a gain of $2,148.

(e) The Company also has an investment in DIM related to the October 2010 closing (the "DIM 2010 Shares"), which consists of deposit receipts representing 766,573 (December 31, 2008 - 766,573) shares of DIM which will be converted to 536,601 Equity One shares in 2010 (Note 28).

7. Restricted cash

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

8. Development properties

	2009	2008
Land and property held for future development	**$ 119,999**	$ 125,742
Construction properties being developed for resale	**115,084**	139,154
Property under construction	**109,773**	95,666
	$ 344,856	$ 360,562

The Company's construction properties being developed for resale include condominium developments that have yet to fully realize their cash flow from sales of units. During 2009, market conditions have changed to a degree that the previously forecasted cash flows from the sale of these units is no longer expected to be attainable, indicating a potential impairment to these assets. At December 31, 2009, the carrying value of these assets exceeded their net realizable value, based on estimated cash flows from the sales prices for future committed and forecasted sales, less estimated selling costs. In addition, the carrying value of certain development projects was determined to be impaired, based on the estimated fair values of the assets as compared to their carrying values. The impairment loss was determined as follows: carrying value of the assets $229,403; net realizable value / fair value $180,291; impairment loss recognized $49,112.

(CAD $ thousands except per share amounts)

8. Development properties (cont.)

In 2009, the Company capitalized acquisition, development and related costs of $141,173 (December 31, 2008 - $217,091) of which $17,467 (December 31, 2008 - $18,473) was interest capitalized. These costs were financed by the assumption of debt in the amount of $23,007 (December 31, 2008 - $25,593) with the remainder in cash and the assumption of other liabilities. During 2009 $19,802 (December 31, 2008 - $NIL) was reclassified from property under construction to construction properties being developed for resale.

9. Investment properties

			2009			2008 (Restated, Note 30)
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Land	$ 455,294	$	**$ 455,294**	$ 527,918	$	$ 527,918
Buildings	2,222,232	100,257	**2,121,975**	2,595,227	86,907	2,508,320
Equipment	92,630	4,918	**87,712**	91,355	2,528	88,827
Paving	18,162	4,916	**13,246**	20,095	4,221	15,874
Tenant improvements	59,102	22,735	**36,367**	103,428	36,827	66,601
	$ 2,847,420	$ 132,826	**$ 2,714,594**	$ 3,338,023	$ 130,483	$ 3,207,540

In 2009, investment properties were acquired at an aggregate cost of $34,299 (2008 - $100,182). Included in investment properties is one property (December 31, 2008 - one) with a carrying value of $584,006 (December 31, 2008 - $689,235) on which there is a purchase option exercisable by the tenant in 2020 for €282 million.

At December 31, 2009, the Company determined that certain of its investment properties were impaired as a result of uncertainty as to the Company's ability to obtain replacement financing for certain properties where either the related debt is in default of its covenants, or financing is due in 2010 and is unlikely to be refinanced based on the property's current loan to value ratio. Where the fair value was determined to be below the carrying value, the carrying value was considered to be not recoverable, which resulted in an impairment charge of $182,006 being recorded. However, as discussed in Note 20, the majority of the Company's real estate assets and related mortgage debts are currently held through limited partnership structures which generally limit the recourse of the lender to the specific assets held in or below the limited partnership, and therefore a breach of covenant does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs.

10. Goodwill

The balance of goodwill of $33,036 as at January 1, 2008 was adjusted (increased) in 2008 by $30,420 due to finalization adjustments of the purchase price allocation relating to acquisitions which occurred in 2007. At December 31, 2008, the Company performed an impairment test on goodwill and, as a result, recognized the full amount of $63,456 as an impairment loss in the consolidated statement of loss for the year. The goodwill impairment loss recognized was indicative of global market conditions related to real estate at the time the impairment test was performed.

11. Intangible assets and liabilities

Intangible assets are comprised of the value of above-market leases, lease origination costs and other lease related intangibles for income property acquisitions and are net of accumulated amortization of $26,903 (December 31, 2008 - $30,547). During the year it was determined that the future income tax benefit related to the investment in the Alexis Nihon REIT acquired in 2007 was more likely than not to be realized. As a result, the unamortized intangible assets acquired ($14,626) were reversed in accounting for the realization of the related future income tax benefit (Note 15).

Intangible liabilities are comprised of the value of below-market leases for income property acquisitions and are net of accumulated amortization of $6,884 (December 31, 2008 - $4,996). Amortization expense of $12,486 (December 31, 2008 - $11,837) is included in depreciation and amortization expense and amortization expense of $4,832 (December 31, 2008 - $887) is applied against property revenue.

12. Accounts payable and other liabilities

	2009	2008 Restated (Note 30)
Trade payables (Note 22b)	**$ 93,535**	$ 104,659
Non-construction demand loans (a) (Note 22k)	**74,310**	90,613
Related party payables (Notes 22 b, f and g)	**5,126**	18,904
Income taxes payable	**13,760**	5,739
Notes payable	**2,999**	173
Security deposits	**732**	1,235
Homburg Capital Securities A (Note 17d)	**3,866**	
Long term payables (b)	**11,732**	13,446
Shareholders of DIM Vastgoed N.V., due October 2010 (c)	**2,987**	4,440
Prepaid rents and deposits	**13,446**	17,378
	$ 222,493	$ 256,587

(CAD $ thousands except per share amounts)

12. Accounts payable and other liabilities (cont.)

The Company has available credit facilities of $89,310 of which $74,310 (December 31, 2008 - $64,849) is being utilized at December 31, 2009. Of these facilities, $15,000 (December 31, 2008 - $15,000) is with a company controlled by the Chairman and Chief Executive Officer and is undrawn at December 31, 2009.

a) Non-construction demand loans consist of the following:
   i) Operating lines of credit provided by chartered banks totalling $18,000. These credit facilities have a 365-day maturity, and are comprised of :
      Loan facility ("Facility A") in the amount of $2,000 repayable in equal successive monthly installments of $21 bearing interest at Laurentian Bank's prime lending rate plus 3.75% per annum.
      Loan facility ("Facility B") in the amount of $16,000 repayable in equal successive monthly payments of $167 bearing interest at Laurentian Bank's and Canadian Imperial Commerce Bank's prime lending rates plus 3.50% per annum.
      The lines are secured by a second ranking mortgage on an investment property with a carrying value of $80,773.
   ii) A demand credit facility of $45,000 bearing interest at Prime + .75% and secured by specific investment properties.
   iii) A promissory note payable plus interest in the amount of EUR €7,519 ($11,310), bearing interest at 6.0% per annum. This amount has no specific repayment terms and relates to the Company's investment in HEEF B.V. (Note 22k).

b) The long term payables include EUR €7,800 ($11,732) (December 31, 2008 - EUR €7,800 ($13,446)) representing the deferred purchase price on the remaining 6.63% of MoTo Objekt Campeon GmbH & Co KG to be acquired in the first quarter of 2012.

c) The DIM Vastgoed N.V. ("DIM") payable relates to the Company's investment in the DIM 2010 Shares (Note 6). The liability was settled subsequent to the year end (Note 28).

13. Construction financing

The Company has arranged construction financing, which is demand in nature, for its development properties. Borrowing rates on these financings are at fixed or variable market rates. The weighted average interest rate for all construction financing is 3.88% (December 31, 2008 - 6.19%). The Company has pledged its development properties as security.

14. Long term debt

	2009	2008
Secured debt		
Mortgages (a)	**$ 1,944,686**	$ 2,125,098
Mortgage bonds (b)	**195,274**	228,368
	2,139,960	2,353,466
Unsecured debt		
Corporate non-asset backed bonds (c)	**466,302**	522,700
Junior subordinated notes (d)	**58,591**	67,551
	524,893	590,251
	2,664,853	2,943,717
Deferred financing charges, net of accumulated amortization of $14,457 (December 31, 2008 - $12,161)	**(23,129)**	(27,016)
	$ 2,641,724	$ 2,916,701

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 1.79% and for fixed rate long term debt was 6.00% (December 31, 2008 - variable - 4.47%, fixed - 5.94%). Scheduled principal installments and principal maturities on long term debt are as follows:

		Mortgages				
		Normal Principal Installments	Principal Maturities	Bonds and Junior Subordinated Notes	Total	Weighted Average Interest Rate of Maturing Debt
2010	- normal installments / maturities	$ 29,963	$ 50,358	$ 36,098	$ 116,419	
	- in breach of covenant (Note 20)		449,274	58,591	507,865	
		29,963	499,632	94,689	624,284	4.37%
2011		35,535	82,742	60,194	178,471	6.42%
2012		37,032	60,233	93,946	191,211	6.26%
2013		31,991	197,948	165,465	395,404	5.66%
2014		21,114	101,946	150,418	273,478	6.10%
Later			851,587	150,418	1,002,005	5.40%
		$ 155,635	**$ 1,794,088**	**$ 715,130**	**$ 2,664,853**	

Specific investment properties with a carrying value of $2,696,216 (December 31, 2008 - $3,200,382) and an assignment of specific leases have been pledged as collateral for the mortgages described above and mortgage bonds payable with a carrying value of $195,274 (December 31, 2008 - $228,368) described in (b) below, with maturity dates between 2009 and 2020. Included in mortgages payable are the following foreign denominated amounts, translated at period end exchange rates:

(CAD $ thousands except per share amounts)

14. Long term debt (cont.)

			2009		2008
US dollar denominated	USD	**$**	**90,861**	$	92,335
	CAD	**$**	**95,349**	$	112,907
EURO denominated	EUR	**€**	**843,708**	€	858,243
	CAD	**$**	**1,269,021**	$	1,479,439

Mortgage principal maturities include loans of $449,274 which were in default of lending covenants at December 31, 2009 and accordingly have been classified as falling due within 2010. The carrying value of the investment properties securing these mortgages is $401,653 at December 31, 2009. A further discussion of these loans is included in Note 20(a).

b) Mortgage bonds

Bond Series	Maturity	Interest Rate	2009	2008	2009	2008
HMB2	April 25, 2010	7.50%	**EUR €24,000**	EUR €30,000	**$ 36,098**	$ 51,714
HMB4	Nov. 30, 2011	7.50%	**EUR €20,010**	EUR €20,010	**30,097**	34,493
HMB5	Dec. 31, 2011	7.50%	**EUR €20,010**	EUR €20,010	**30,097**	34,493
HMB6	June 30, 2012	7.50%	**EUR €31,230**	EUR €31,230	**46,973**	53,834
HMB7	June 30, 2012	7.25%	**EUR €31,230**	EUR €31,230	**46,973**	53,834
					190,238	228,368
Currency guarantee payable					**5,036**	
					$ 195,274	$ 228,368

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. The bonds mature between April 2010 and June 2012 and the Company has the option to redeem any series of mortgage 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. Mortgage bonds payable are translated at period end exchange rates. The Company has entered into guarantee arrangements on all series of mortgage bonds, with a company under the control of the Chairman and Chief Executive Officer. Under the terms of the guarantee, the Company is protected from devaluation of the Canadian dollar against the Euro, to a maximum limit equal to the face value of each mortgage bond, and has relinquished any appreciation rights which may arise on the future settlement of its Euro denominated Mortgage Bonds. The Mortgage Bonds are recorded at the prevailing exchange rate at December 31. Included within the consolidated balance sheet is a liability of $5,036 (December 31, 2008 - asset of $23,594, as restated (Note 30)) reflecting a decrease in the principal amount of the mortgage bonds (resulting from an increase in the value of the Canadian dollar versus the Euro) since the bonds were issued. The Company pays annual premiums under these guarantee arrangements and may terminate or cancel the arrangements at any time at its discretion. Upon termination or cancellation, the Company must pay all premiums payable through such date and the settlement amount under the guarantee is based on the spot foreign exchange rate in effect on such date applied to the principal and accrued interest amounts then outstanding.

c) Corporate non-asset backed bonds

Bond Series	Maturity	Interest Rate	2009	2008	2009	2008
HB8	May 31, 2013	7.00%	**EUR €50,010**	EUR €50,010	**$ 75,220**	$ 86,207
HB9	October 31, 2013	7.00%	**EUR €60,000**	EUR €60,000	**90,246**	103,428
HB10	February 15, 2014	7.25%	**EUR €100,005**	EUR €100,005	**150,418**	172,389
HB11	January 15, 2015	7.25%	**EUR €100,005**	EUR €93,210	**150,418**	160,676
					$ 466,302	$ 522,700

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.

d) Junior subordinated notes

The junior subordinated notes consist of EUR €25,000 ($37,603) and USD $20,000 ($20,988) which require interest only payments until maturity in 2036 and 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 requires the Company to maintain a certain minimum rolling four-quarter interest coverage ratio, as calculated using the Company's IFRS financial statements. The interest coverage ratio covenant was in default during 2009 and a waiver from the lender was obtained until April 30, 2010. However, it appears unlikely that the covenants will be in compliance at April 30, 2010, and accordingly the Company is seeking to obtain an additional waiver from the lender, which has not yet been obtained. Accordingly, the maturity has been classified as falling due within 2010.

(CAD $ thousands except per share amounts)

15. Income taxes

Income tax 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 earnings (loss) before income taxes, resulting from the following items:

	2009	2008
Earnings (loss) before income taxes from continuing operations	**$ (292,418)**	$ (102,509)
Combined Canadian federal and provincial statutory income tax rate	**32.25 %**	32.00 %
Income tax expense (recovery) at the above tax rate	**$ (94,305)**	$ (32,803)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains and market value changes	**(6,647)**	(596)
Provincial capital tax (net of income tax recovery)	**805**	1,337
Goodwill impairment		18,720
Effect of rate change on temporary differences	**4,999**	
Impact of unrecognized deductible temporary differences	**20,946**	
Impact of unrecognized (gains) losses	**2,202**	6,647
Non-deductible (non-taxable) amounts	**(169)**	2,365
Effect of difference in statutory tax rates of subsidiaries	**26,268**	1,371
Change in effective tax rate	**6,897**	
Other	**(6,161)**	(1,756)
Income tax expense (recovery)	**$ (45,165)**	$ (4,715)
Comprised of:		
Current income and capital taxes	**$ (6,154)**	$ 10,899
Future income taxes	**(39,011)**	(15,614)
	$ (45,165)	$ (4,715)

Future 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. Future tax assets and liabilities are netted in the consolidated balance sheet to the extent they relate to the same fiscal entity, tax group or taxation jurisdiction. The major components are as follows:

	2009	2008
Future tax assets		
Loss carry forwards and foreign tax credits	**$ 40,356**	$ 15,847
Unrealized losses	**14,358**	27,989
	$ 54,714	$ 43,836
Future tax liabilities		
Deferred revenues and costs	**$ (12,695)**	$ (2,313)
Investment properties	**(70,210)**	(165,938)
	$ (82,905)	$ (168,251)
Net future tax asset (liability)	**$ (28,191)**	$ (124,415)

The Company is more likely than not to realize a previously unrecognized future income tax asset inherent in the investment in units of a subsidiary Trust, which was acquired in 2007 as part of the Alexis Nihon purchase. The income tax benefit has been reduced by the unamortized balance of intangible assets originally recognized on the acquisition such that the income tax recovery is $9.9 million. The remaining unrecognized future income tax asset of $25.8 million is not more likely than not to be realized.

The Company has non-capital loss carryforwards of $124,581, the benefit of which has been recognized. These expire as follows: $498 between 2013 and 2027; $16,140 in 2028; and $107,943 in 2029. The Company also has foreign tax credits of $3,846 which expire between 2015 and 2018, of which $124 has been recognized. A benefit has not been recognized in respect of deductible temporary differences related to investment properties in the amount of $112,044.

16. Assets held for sale and discontinued operations

During 2009 the Company disposed of five investment properties, and designated a further seven as assets held for sale of which six were sold subsequent to the year end (Note 28). The following represents the amounts associated with these discontinued operations.

Statement of earnings	2009	2008
Property revenue	**$ 10,219**	$ 10,267
Property operating expenses	**1,478**	1,473
	8,741	8,794
General and administrative	**673**	701
Depreciation and amortization	**1,598**	1,598
Interest	**3,808**	3,864
Impairment loss on investment properties	**3,035**	
Loss on sale of assets	**453**	
Net income from discontinued operations before income taxes	**(826)**	2,631
Income taxes (recovery)	**(389)**	920
Net income from discontinued operations	**$ (437)**	$ 1,711

(CAD $ thousands except per share amounts)

16. Assets held for sale and discontinued operations (cont.)

Balance Sheet	**2009**	2008
Investment Properties	**$ 52,516**	$ 94,293
Intangible assets	**266**	226
Restricted cash	**5,324**	180
Receivable and others	**1,268**	2,010
	$ 59,374	$ 96,709
Long term debt	**$ 21,030**	$ 35,423
Future income tax liabilities	**4,288**	4,682
Income taxes payable	**14,552**	28,903
Accounts payable	**1,158**	368
	$ 41,028	$ 69,376

Statement of Cash Flows		
Operating activities	**$ (1,582)**	$ 2,883
Investing activities	**$ 11,197**	$ 423
Financing activities	**$ (6,895)**	$ (6,653)

17. Shareholders' equity

	2009	2008
Deficit (2008 as restated (Note 30))	**$ (433,228)**	$ (184,050)
Accumulated other comprehensive loss (a)	**(13,265)**	(24,038)
	(446,493)	(208,088)
Share capital (b)	**691,785**	698,535
Other paid in capital (d)	**43,538**	11,489
Contributed surplus (f)	**12,756**	7,206
	$ 301,586	$ 509,142

a) Accumulated other comprehensive loss

	2009	2008
Net unrealized foreign currency translation gains	**$ (6,651)**	$ 26,315
Net unrealized future tax liability	**(6,614)**	(50,353)
	$ (13,265)	$ (24,038)

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

The following were the rates of exchange in effect:

	$1.00 USD	**€1.00 EUR**
December 31, 2009	**$ 1.04940**	**$ 1.50410**
December 31, 2008	$ 1.22280	$ 1.72380
Average rate for 2009	**$ 1.14172**	**$ 1.58706**
Average rate for 2008	$ 1.06669	$ 1.56127

17. Shareholders' equity (cont.)

b) Share capital
The particulars of the issued and outstanding shares of the Company are as follows:

	Class A Subordinate Voting Shares (000's)	Class B Multiple Voting Shares (000's)	Share Capital
Issued and outstanding at December 31, 2007	16,132	3,152	$ 633,265
Shares acquired under Normal Course Issuer Bid (c)	(51)	(1)	(2,028)
Shares issued for stock dividend			44,788
Issue costs, net of income taxes			(62)
Dividend reinvestment plan	709		22,572
Issued and outstanding at December 31, 2008	16,790	3,151	698,535
Shares acquired under Normal Course Issuer Bid (c)	(171)	(2)	(6,750)
Issued and outstanding at December 31, 2009	**16,619**	**3,149**	**$ 691,785**

The Company is authorized to issue an unlimited number of Class A Subordinate Voting Shares ("Class A"), an unlimited number of Class B Multiple Voting Shares ("Class B"), an unlimited number of Class A Preferred Shares ("Preferred"), issuable in series and an unlimited number of Class B Preferred Shares ("Preferred"), issuable in series. The Company's share capital represents amounts received at the time of issuance. None of the Company's shares have a par value.

Holders of Class A shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class B shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class A shares shall be entitled to one vote for each Class A share held. Holders of Class B shares shall be entitled to receive notice of, to attend, and to vote at, all meetings of the shareholders of the Company, voting together with holders of Class A shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class B shares shall be entitled to twenty-five votes for each Class B share held. Class A shares will be convertible into Class B shares in certain limited circumstances involving offers made to all, or substantially all, of the holders of Class B shares. Dividends are payable on Class A shares and Class B shares when declared by the Board of Directors. The Class A and Class B shares rank equally in dividend eligibility. Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution prior to issuance. Preferred shares are non-voting and rank in priority to the Class A and Class B shares with respect to dividends and distribution upon dissolution. No Preferred shares have been issued. On December 12, 2008, the Company's shareholders approved a stock consolidation of the Class A Subordinate Voting Shares and Class B Multiple Voting Shares. Under the consolidation, each 10 pre-consolidation shares, whether of Class A or Class B, were exchanged for 1 post-consolidation share in the same class of share, either of Class A or Class B. The terms of the Class A and Class B shares remained otherwise unchanged. During the year ended December 31, 2008, the Company declared a dividend of $0.24 per share on all issued and outstanding shares. The dividend was paid "in-kind" by issuing Class A Subordinate Voting Shares at a fair value price of $3.49 (pre-consolidation value) per share. The fair value was determined based on the weighted average trading price of the Class A Shares for a five day trading period prior to the date of the dividend declaration. After giving effect to the cash payment of non-resident withholding taxes and fractional shares, 0.068593 Class A Shares were issued for each outstanding Class A and Class B Multiple Voting Share. All reported share and per share amounts have been retrospectively adjusted to reflect the 1 for 10 stock consolidation and the dilutive effect of the "in-kind" dividend.

c) Normal Course Issuer Bid ("NCIB")
On October 16, 2008, the Company announced plans, under an approved NCIB, to acquire (on a post-consolidation basis) up to 1,051,000 Class A Subordinate Voting shares and 157,500 Class B Multiple Voting shares over a one year period ending October 16, 2009. The NCIB enabled the Company to acquire up to 4,754 Class A Shares and up to 100 Class B Shares on any given trading day. Any shares acquired by the Company under the NCIB were cancelled. To December 31, 2008, the Company acquired and cancelled 51,210 Class A Shares at an average cost of $14.77 per share, and 1,240 Class B Shares at an average cost of $14.41 per share. During the 2009 portion of the authorized period under the NCIB, which ended October 16, 2009, the Company acquired and cancelled 171,200 Class A Shares at an average cost of $7.79 per share, and 1,700 Class B Shares at an average cost of $7.34 per share. Class A and Class B shares acquired are being cancelled and removed from share capital at the average issue price at the time of acquisition. The discount on repurchases made in the year of $5,404 is credited to contributed surplus.

d) Other paid in capital

		2009	2008
Balance, beginning of year		**$ 11,489**	$ 11,489
Homburg Capital Securities A:	Equity component	**33,250**	
	Deferred transaction costs	**(1,201)**	
Balance, end of year		**$ 43,538**	$ 11,489

During the year ended December 31, 2009, the Company issued EUR €23,568 ($37,116) Homburg Capital Securities A ("HCSA"). The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly. The Company has the option to pay any and all of the quarterly interest payments in cash or through the issuance of a fixed number of Class A Preferred shares. The principal amount of HCSA must be paid in cash upon redemption or maturity. The HCSA are direct unsecured obligations of Homburg Invest Inc. and are subordinate to the Company's existing mortgage bonds payable and corporate non-asset backed bonds, and rank senior to the Company's Class A Subordinate Voting Shares and Class B Multiple Voting Shares.

17. Shareholders' equity (cont.)

d) Other paid in capital (cont.)

The Company will have the right to redeem the HCSA, at a price equal to 100% of the principal amount of the HCSA to be redeemed, plus accrued and unpaid interest to the date of redemption by giving not less than thirty (30) and no more than sixty (60) days' prior notice on account of:

- certain changes in tax legislation or other tax events subjecting the issuer to additional taxes or other governmental charges;
- the termination of equity treatment for accounting purposes of future interest obligations under the HCSA or of the Class A Preferred Shares, subject to an insignificant amount of Class A Preferred Shares then issued and outstanding; and
- on February 27, 2014 or any subsequent interest payment date, in whole or in part.

Any Class A Preferred shares issued will be issued in series and will have the following terms and conditions: par value of one (1) Euro each; non-voting; cumulative dividends at the annual rate of 9.75%, as and when declared by the board of directors; having an indefinite life. The Class A Preferred shares will have a mandatory obligation for the Company to redeem all issued and outstanding Class A Preferred shares for an amount equal to their par value plus any accrued but unpaid dividends thereon at the earlier of:

- the next interest payment date on which the Company elects to pay interest on the HCSA in cash, in whole or in part; and
- the business day falling immediately prior to the date on which the Company redeems, purchases or otherwise acquires any shares or securities in the capital of the Company ranking junior to or pari passu with the HCSA.

In addition, any Class A Preferred shares issued in respect of quarterly interest payments prior to April 1, 2011, will be puttable at the holders' option back to the Company for cash equal to one (1) Euro per Class A Preferred share. The put option with respect to any such Class A Preferred shares issued will expire 30 days from the date of receipt of the Class A Preferred shares.

The Company has determined that the expected life of the HCSA is 50 years through March 31, 2059. The proceeds received on issuance have been allocated to three components:

- The Company has recognized a liability of EUR €107 ($162) equal to the present value of the HCSA principal that must be repaid at the end of the expected life of the instrument. This liability is being accreted using a rate of 11.0% to its full principal amount over the expected life of the instrument using the effective interest rate method with accretion recognized in interest expense.
- The Company has recognized a liability of EUR €2,447 ($3,704) for the present value of the interest payments prior to April 1, 2011, given the holder put option with respect to any Class A Preferred shares received with respect to such interest payments. This liability has been discounted and is being accreted using the effective interest rate method at a rate of 11.0%, with accretion recognized in interest expense.
- The residual amount of EUR €21,014 ($33,250) represents the future quarterly interest payments after March 31, 2011, that can be settled by the issuance of Class A Preferred shares at the Company's option. This residual amount has been included in other paid in capital. This amount is also being accreted over the expected life of the instrument using the effective interest rate method with accretion amounts charged directly to retained earnings, net of any income tax benefit. Interest payments made after March 31, 2011, whether in cash or Class A Preferred shares, will reduce the other paid in capital amount. The effective interest rate used results in other paid in capital reducing to nil at the end of the expected life of the instrument.

Foreign currency gains and losses on the liability components, whether realized or unrealized, will impact earnings each quarter. Foreign currency fluctuations on interest payments made after March 31, 2011, will be charged to retained earnings.
Basic and diluted earnings per share are being reduced by amounts charged directly to retained earnings as such amounts are in preference to earnings available to common shareholders. In addition, cumulative preferred dividends whether paid or unpaid on any Class A Preferred shares that may be outstanding will reduce basic and diluted earnings per share. Transaction costs related to the HCSA are being allocated to the liability and equity components in proportion to the initial allocation of the proceeds received. The transaction costs related to the liability components are included in deferred financing fees and are being amortized, on an effective interest basis, over the estimated life of the related liability component. The transaction costs related to the equity component are netted against other paid in capital and are being amortized to retained earnings, on an effective interest basis, over the expected life of 50 years for the HCSA.

e) Stock options

	2009			2008		
		Weighted Average			Weighted Average	
	Shares (000's)		**Exercise Price**	Shares (000's)		Exercise Price
Outstanding at beginning of year	**929**	**$**	**52.50**	795	$	55.00
Granted				135		37.60
Exercised						
Expired				(1)		28.50
Outstanding at end of year	**929**	**$**	**52.50**	929	$	52.50

17. Shareholders' equity (cont.)

e) Stock options (cont.)

Date of Grant	Expiration Date	Exercise Price	Class A Subordinate Voting Shares Under Option (Number 000's)	Class A Subordinate Voting Shares Fully Vested (Number 000's)
June 25, 2005	June 29, 2010	$28.50	49	49
July 16, 2007	July 15, 2012	$56.80	745	745
June 27, 2008	June 26, 2013	$37.60	135	92
			929	**886**

Under the Company's Stock Option Plan ("the Plan"), the Company may grant options to its directors and officers of the Company and employees of the management company. New stock options may not be granted under the Plan on Class B Multiple Voting Shares of the Company. The maximum number of Class A Subordinate Voting Shares issuable pursuant to stock options outstanding under the Plan shall not exceed 10% of the aggregate number of issued and outstanding Class A Subordinate Voting Shares and Class B Multiple Voting Shares at the time of grant. Under the Plan, the exercise price of each option shall not be less than the closing market price of the Class A Subordinate Voting Shares on the TSX on the last trading day prior to the date of granting of the stock option and an option's maximum term is 10 years. Options are granted and vest at the discretion of the Board of Directors, and are fully exercisable once vested. On December 31, 2009 and December 31, 2008 there were no Class B Multiple Voting Share Options granted and there were 929,681 Class A Subordinate Voting Share Options granted and unexercised (886,003 fully vested and exercisable). During the period ended June 30, 2008, the Company granted 135,319 stock options under the Plan, with an exercise price of $37.60 per share, which was equal to the market price on the last trading day prior to the grant date. Of the options granted, 48,464 vested on the grant date, and the remainder vest equally on the grant date anniversary over the subsequent four years. The resulting $579,030 fair value is charged to expense over the vesting period with a corresponding amount recorded in contributed surplus. The amount recorded in contributed surplus will be reclassified to share capital as options are exercised. The Company follows the recommendations of section 3870 of the CICA Handbook concerning Stock Based Compensation and Other Payments wherein the fair value of each option grant is estimated on the date of grant using the Binomial or similar option pricing model. The fair value of each option granted was estimated using the exercise price and the following weighted average assumptions for all outstanding options: Expected volatility 30.0 - 40.0%; Risk free interest rate 3.31- 4.60%; Expected dividend yield 5.6 - 13.0%; Expected lives 3.5 - 5 Years. The compensation cost that has been expensed against income in 2009 is $146 (December 31, 2008 - $307).

f) Contributed surplus

	December 31 2009	December 31 2008
Balance, beginning of year	**$ 7,206**	$ 5,645
Acquisition and cancellation of Class A shares	**5,404**	1,254
Stock based compensation	**146**	307
Balance, end of year	**$ 12,756**	$ 7,206

The Company's contributed surplus balance applies to:		
Class A stock option expense	**$ 6,098**	$ 5,952
Discount on cancellation of Class A Shares	**6,658**	1,254
	$ 12,756	$ 7,206

Class A Subordinate Voting Shares and Class B Multiple Voting Shares acquired by the Company under the Normal Course Issuer Bid ("NCIB") (Note 17c) are being cancelled and are removed from share capital at the average issue price at the time of acquisition. Any discount on acquisition is credited to contributed surplus.

18. Earnings (loss) per share

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

	2009 (000's)	2008 (000's)
Basic and Diluted		
Class A Subordinate Voting	**16,679**	16,674
Class B Multiple Voting	**3,149**	3,151
	19,828	19,825

Earnings (loss) available to Class A and Class B shareholders is calculated as:		
Net earnings (loss)	**$ (247,690)**	$ (96,083)
Homburg Capital Securities equity accretion (Note 17d)	**(1,228)**	
	$ (248,918)	$ (96,083)

The weighted average number of shares for 2008 has been retrospectively adjusted to reflect the impact of the 2008 stock consolidation and "in-kind" dividend. The Company incurred a loss during the years ended December 31, 2009 and 2008, 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.

(CAD $ thousands except per share amounts)

19. Supplemental cash flow information

	2009	2008
Change in non-cash working capital and other:		
Receivables and other	**$ (14,297)**	$ 4,772
Accounts payable and other liabilities	**(33,609)**	41,995
Deferred leasing costs, net change	**(1,029)**	(4,104)
Proceeds exceeding earnings on development properties	**120,032**	(21,159)
	$ 71,097	$ 21,504
Interest paid	**$ 164,743**	$ 117,524
Interest capitalized	**$ 17,467**	$ 18,473
Capital and income taxes paid (received)	**$ 1,431**	$ 8,712

20. 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.

Classification	Subsequent Measurement	Carrying Value 2009	Fair Value 2009	Carrying Value 2008	Fair Value 2008
Available for Sale					
Long term investments -DEGI L.P. (a)	Cost	**$ 9,321**	Note (a)	$ 10,635	Note (a)
Held for Trading					
Long term investments - others (b)	Fair value (L1)	**$ 6,278**	**$ 6,278**	$ 19,186	$ 19,186
Long term investments -HEEF B.V. (b)	Fair value (L3)	**8,605**	**8,605**	10,265	10,265
Cash and cash equivalents (c)	Fair value (L1)	**32,569**	**32,569**	16,359	16,359
Currency guarantee receivable (payable) (c)	Fair value (L2)	**(5,036)**	**(5,036)**	28,165	28,165
Derivative instrument liability (c)	Fair value (L3)	**(24,045)**	**(24,045)**	(19,427)	(19,427)
		$ 18,371	**$ 18,371**	$ 54,548	$ 54,548
Loans and Receivables					
Restricted cash (d)	Amortized cost	**$ 23,159**	**$ 23,159**	$ 25,969	$ 25,969
Receivables and other (d)	Amortized cost	**93,009**	**93,009**	123,624	123,624
		$ 116,168	**$ 116,168**	$ 149,593	$ 149,593
Other Financial Liabilities					
Accounts payable and other (d)	Amortized cost	**$ 15,710**	**$ 15,710**	$ 54,715	$ 54,715
Mortgages (e)	Amortized cost	**1,944,686**	**2,003,657**	2,160,544	2,146,666
Mortgage bonds (e)	Amortized cost	**190,238**	**207,943**	228,368	208,424
Corporate non-asset backed bonds (e)	Amortized cost	**466,302**	**462,136**	522,700	440,980
Junior subordinated notes (e)	Amortized cost	**58,591**	**88,082**	67,551	70,607
Deferred financing charges (e)	Amortized cost	**(23,129)**	**(23,129)**	(27,039)	(27,039)
Construction financing (d)	Amortized cost	**94,999**	**94,999**	102,433	102,433
		$ 2,747,397	**$ 2,849,398**	$ 3,109,272	$ 2,996,786

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.

(a) The investment in DEGI L.P. represents 10% of the limited partnership units. The partnership units are not traded in an active market. Accordingly, the investment is classified as available for sale and carried at cost, and is subject to testing for impairment in its carrying value.

(b) Long term investments, with the exception of the investment in DEGI L.P., are carried at their fair values. The fair value of the Company's investment in Homburg Eastern European Fund B.V. is based on the proportionate share of the reported net asset value of the B.V.. The 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. The fair values of other long term investments are based on quoted market prices. A loss of $1,189 resulting from the change in fair values of investments was recorded against net earnings (loss) during the period (2008 - loss of $ 23,133).

(c) Cash and cash equivalents, the currency guarantee receivable (payable) and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of $7,486 against net earnings (loss) for the period (2008 - loss of $18,542).

(CAD $ thousands except per share amounts)

20. Financial instruments and risk management (cont.)

(d) 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, DIM Vastgoed 2010 liability and construction financing are carried at amortized cost which, due to their short term nature, approximates their fair value.

(e) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes and long term payables. The fair values of these financial instruments are based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions.

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 the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining the same level of financing when seeking to renew existing debt and obtain new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. 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 ratios and interest coverage ratios, and/or reserve account balance requirements. Breach of any of these covenants could result in the related debt being required to be repaid before its scheduled maturity date. Should that happen, the Company may be required to sell properties at unfavourable prices to satisfy the debt repayment, and the Company's financial condition and results of operations could be adversely affected. The majority of the Company's real estate assets and related mortgage debts are currently held through limited partnership structures. These structures generally limit the recourse of the lender to the specific assets held in or below the limited partnership, and therefore a breach of covenant does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs. The recourse of the lender to the Company's mortgage bonds and unsecured debt is generally unrestricted.

The Company has been negatively impacted by global economic and capital market conditions which have resulted in tightened lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company is significantly levered with a debt to equity ratio of 9.38:1 at December 31, 2009 (December 31, 2008 - 6.14:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the year ended December 31, 2009, Homburg Invest had total interest expense coverage from continuing operations of 0.93:1 (December 31, 2008 - 1.52:1) (calculated as total revenue less unrealized fair value gains, foreign exchange gains, property operating expenses, cost of property sales and general and administrative expenses ÷ interest expense (excluding capitalized interest)). In response to the changes in global capital markets, on December 16, 2009, the Company announced that the Board of Directors authorized a major reorganization of the Company's real estate assets. As the initial step in the reorganization, the Company continues to progress towards the creation of the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt. It is expected that a preliminary prospectus for the initial public offering ("IPO") will be filed and that the Homburg Canada REIT will become a publicly traded REIT in the first half of 2010. The timing of the Homburg Canada REIT IPO transaction and the impact on the Company's liquidity is subject to uncertainty, however, if successful, cash proceeds from the IPO will be utilized to reduce debt and satisfy other obligations. The following table presents the Company's contractual obligations at December 31, 2009:

Contractual Obligations	2010	2011	2012	2013	2014	Later
Operating leases (i)	6,868	14,428	14,448	14,679	14,679	194,594
Mortgages: Normal principal installments (i)	29,963	35,535	37,032	31,991	21,114	
Interest (i)	97,610	94,030	85,478	98,925	58,648	
Principal maturities (ii)	50,358	82,742	60,233	197,948	101,946	851,587
Bonds and junior subordinated notes:						
Interest (i)	54,316	53,000	45,209	37,624	21,075	
Principal maturities (iii)	36,098	60,194	93,946	165,465	150,418	150,418
Non construction demand loans (iv)	74,310					
Construction financing (v)	94,999					
Construction purchase obligations (v)	2,527					
Other current and long term payables (vi)	6,853		11,732			
Working capital deficit (vii)	68,258					
	522,160	**339,929**	**348,078**	**546,632**	**367,880**	**1,196,599**
Mortgage principals: covenant breach (ix)	449,274					
Junior subordinated notes: likely covenant breach (viii)	58,591					
	$ 1,030,025	**$ 339,929**	**$ 348,078**	**$ 546,632**	**$ 367,880**	**$ 1,196,599**

20. Financial instruments and risk management (cont.)

a) Liquidity risk (cont.)

The Company's derivative instrument liability $(24,045) has been excluded from the above table as the liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which are settled with the derivative instrument on a net basis; accordingly, interest obligations on such mortgages are shown at the effective fixed rate, which approximates the timing of the related cash flows.

(i) The Company requires liquidity to meet the following obligations which ordinarily fall due in the next twelve months: mortgage principal installments of $29,963; interest on mortgages and mortgage bonds of $97,610; interest on corporate non asset backed bonds and junior subordinated notes of $54,316; capital spending requirements on the income property portfolio, expected to approximate $8 million; and operating lease commitments of $6,868. Sources of finance towards these obligations include: cash on hand of $32,569; net cash flow from operating activities before interest expense unrelated to development activities; the unutilized non-construction demand loans of $15,000 with a company controlled by the Chairman and Chief Executive Officer; cash generated from continued sales of completed condominium development projects; the potential sale of certain income producing properties, subject to reasonable prices being attained; and the potential upward refinancing on certain mortgages.

(ii) Mortgage principal maturities falling due in 2010 total $50,358, of which $15,358 has been repaid subsequent to year end and $11,280 is expected to be renewed at terms similar to those currently in place. The remaining $23,720 relates to a property in the Netherlands which is currently unoccupied. According to the specific loan agreement, the lender has recourse only to the borrowing entity's specific property and certain other assets of the borrowing entity securing this specific loan. As a result of potential refinancing difficulties, an impairment charge of $8,053 was recorded in 2009 to adjust the property's carried value to its fair value of $26,510 (Note 9).

(iii) Subsequent to year end, the Company sold 6 properties for gross proceeds of approximately $46.4 million. EUR €18.0 million of the net proceeds was paid towards the partial redemption of Homburg Mortgage Bond 2 (principal maturity of $36,098 at December 31, 2009). The remaining balance of EUR €6.0 million will be repaid in April 2010, from committed financing on two other properties.

(iv) The Company's non construction demand loans of $74,310 are secured by first or second charges over various investment properties not to exceed 65% of fair value. Included in the demand loans is a credit facility of $45.0 million which is expected to be repaid using proceeds following the Homburg Canada REIT IPO. The Company anticipates that the other demand loans will remain in place based on current loan to property security values.

(v) The Company has $344,856 invested in development properties that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling $94,999 at December 31, 2009. The Company expects to finance construction properties currently under development, including interest on principal borrowings, through existing and additional construction loans. Secured first mortgage financing on completed construction projects will be replaced with conventional first mortgages, or repaid where the debt is secured by a charge over properties being sold. Purchase obligations relate to construction projects underway to which the Company has commitments of $2,527. These commitments will be funded from existing cash resources and further construction financing. The Company's reduced liquidity raises uncertainty with respect to the future development of certain land holdings and development projects. As a result, where the current fair value is below the carrying value, an impairment charge has been recorded (Note 8). There is a risk that further delays in development projects could result in additional costs that may not ultimately be recoverable, and the potential for further impairment charges.

(vi) Other obligations falling due within 12 months include Homburg Capital Securities A ("HSCA") ($3,866) and DIM Vastgoed N.V. ($2,987), totaling $6,853.

(vii) The working capital deficit of ($68,258) consists of trade receivables ($35,341), related party receivables ($10,220) and notes receivable ($1,601), less trade payables ($93,535), related party payables ($5,126), income taxes payable ($13,760) and notes payable ($2,999), and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.

(viii) The Company's junior subordinated notes, with a principal balance of $58,591, were in default of an interest coverage ratio covenant during 2009, however a waiver from the lender was obtained until April 30, 2010. It appears unlikely that the covenants will be in compliance at April 30, 2010, therefore the Company is seeking to obtain an additional waiver from the lender; however, this has not yet been obtained. Accordingly, these principal maturities have been classified as falling due within 2010. In absence of the covenant breach, the principal maturity is due in 2036.

20. Financial instruments and risk management (cont.)

(ix) Mortgage principal maturities include loans of $449,274 which were in default of lending covenants at December 31, 2009. Accordingly, these loans are classified as falling due within 2010. Included is a loan of $154,352 which relates to a specific property in Germany that was vacated by the tenant, Quelle GmbH, on December 31, 2009. According to the loan agreement, the lender has recourse only to the assets of the limited partnership and entities under it which secured the specific loan, and not to the Company as a whole. The lender has not taken action to foreclose on its security at December 31, 2009, and therefore the borrowing entities continue to be consolidated by the Company and the mortgage continues to be recorded at amortized cost. At December 31, 2009, the specific property was recorded at its fair value of $18,756, after an impairment charge of $157,361 (Note 9). As a result of the default, the lender may foreclose on its security and the Company may lose control of the assets to the lender. Should this occur, a gain would be realized to the extent of the difference between the maximum amount of the debt of $154,352 and the limited amount of recourse the lender is able to recover.

Also included is a loan of $198,517 ordinarily due in 2017 relating to the Company's portfolio of properties in the Baltic States which was in breach of an interest coverage ratio covenant at December 31, 2009. The Company obtained a waiver until April 30, 2010 to rectify the breach and is working with the lender to rectify the situation.

Additionally, there are two separate loans with a lender, of which $54,777 is ordinarily due in 2014 and $41,628 is ordinarily due in 2012 that were in breach of maximum loan to value covenants. The loans relate to two separate properties in The Netherlands. According to these loan agreements, the lender has recourse only to certain assets of the specific entities securing the specific loans, and not to the Company as a whole. The Company is working with the lender to rectify the situation.

Should the above efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell properties at unfavourable prices to meet its immediate liquidity needs, and as a result the financial condition and results of operations could be adversely affected. The Company has been successful in the past in raising non asset backed debt financing and mortgage bond financing on the global market to the extent of $700,000. The Company will continue to look to these unique financing markets for additional funds; however, there can be no assurance that additional funds will be available.

b) Interest rate risk

As a result of the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of $2,327,214 in fixed rate debt and $501,422 in floating rate debt (before deferred financing charges and the currency guarantee payable) including $169,309 in demand and short term loans which are repayable in less than one year. The Company has minimized its interest rate risk through a liability management policy. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €159,906 ($240,515) (December 31, 2008 - EUR €161,181 ($277,843)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltic States during the year ended December 31, 2009, the impact on the consolidated statement of earnings was a loss of $7,486 (December 31, 2008 - loss of $18,542). The Company discloses the weighted average interest rate of maturing long term debt in Note 14.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 $3,560 in the Company's earnings as a result of the impact on floating rate borrowings.

c) Credit risk

The Company's principal assets are commercial and residential properties. Credit risk on tenant receivables of $20,064 (December 31, 2008 - $14,100) 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 19% 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 ($112,808) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company sought 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 Company has not experienced significant receivable write-offs, other than in respect of its former tenant, Quelle GmbH for which $5.6 million was charged to property operating expenses in 2009. Otherwise, there has been no significant change in the bad debt provision during the period. 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 mitigates a portion of its currency risk on mortgage bonds denominated in Euros through a guarantee agreement. In support of the currency guarantee the related party has arranged an arms length credit facility agreement. The Company has also established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. At December 31, 2009, EUR €25,000 ($37,603) (December 31, 2008 - €234,340 ($403,955)) of the Company's net investment was hedged with an equal amount of Euro-denominated debt. The hedge is considered to be an effective hedge at December 31, 2009 and December 31, 2008, and will be regularly reviewed to assess the continued effectiveness of the hedging relationship. 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.

(CAD $ thousands except per share amounts)

20. Financial instruments and risk management (cont.)

d) Currency risk (cont.)

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 an decrease (increase) in earnings after income taxes, excluding un-hedged debt, of $1,558 and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of $10,303 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 $32 and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of $1,438 after income taxes.

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

e) Concentration risk

Certain of the Company's larger investment properties are leased to single tenants, and the recovery of the carried value of these investments is dependent upon the continuation of rental income on these properties from existing or new tenants. The Company's largest single tenant represented approximately 19% (December 31, 2008 - 17%) 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 had a carrying value of $584,006 at December 31, 2009. The Company also follows a policy of maintaining its properties to a quality standard that would support timely re-leasing to new tenants.

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.

21. Capital management

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

Interest expense coverage is defined as total revenue less unrealized fair value gains, foreign exchange gains, property operating expenses, costs of property sales, and general and administrative expenses, divided by interest expense (excluding capitalized interest).There was no change in the Company's approach to capital management during the period. In the management of its capital, the Company includes all short term bank indebtedness, long term debt and shareholders' equity. The Company has external covenants imposed by specific borrowing facilities. These covenants primarily relate to maintenance of minimum interest coverage ratios and maximum loan to value ratios and reserve account balance requirements. The Company is not in compliance with certain of its covenants as more fully described in Notes 14 and 20. The results of the Company's management objectives for the period were as follows. As the Company has not yet released its IFRS financial statements for the year ended December 31, 2009, the applicable IFRS measures in the table below are not yet available.

		Canadian GAAP
Debt-to-equity ratio	**December 31, 2009**	**9.38:1**
	December 31, 2008	6.14:1
Interest expense coverage ratio	**December 31, 2009**	**0.93:1**
	December 31, 2008	1.52:1

(CAD $ thousands except per share amounts)

21. Capital management (cont.)

	2009	2008
Debt is calculated as follows:		
Long term debt	**$ 2,641,724**	$ 2,916,701
Construction financing	**94,999**	102,433
Homburg Capital Securities A	**3,866**	
Long term payables	**11,732**	13,446
Due to DIM shareholders	**2,987**	4,440
Non-construction demand loans	**74,310**	90,613
	$ 2,829,618	$ 3,127,633
Shareholders' equity (2008 restated, Note 30)	**$ 301,586**	$ 509,142
Interest on long term debt	**$ 149,531**	$ 151,035
Interest and financing costs	**7,631**	11,916
	$ 157,162	$ 162,951
Total revenue, excluding foreign exchange gains	**$ 377,088**	$ 495,855
Property operating expenses	**(100,354)**	(82,113)
Cost of sales of properties	**(107,767)**	(142,841)
General and administrative	**(23,411)**	(23,268)
	$ 145,556	$ 247,633

22. Related party transactions

The Company is controlled by the Chairman and Chief Executive Officer through holding companies.

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

	2009	2008
Rental revenue earned	**$ (788)**	$ (1,203)
Interest income (h)	**$ (768)**	$
Asset and construction management fees (k)	**$ 24,756**	$ 22,248
Property management fees incurred (k)	**$ 6,555**	$ 6,359
Insurance costs incurred	**$ 1,281**	$ 1,380
Service fees incurred	**$ 6,489**	$ 7,378
Property acquisition / disposal fees incurred (k)	**$ 1,065**	$ 4,544
Mortgage bond guarantee fees incurred (i)	**$ 2,898**	$ 3,532
Tenant improvements	**$**	$ 447
Bond and other debt issue costs incurred	**$ 1,434**	$ 6,025
Interest costs incurred (f) (g) (j)	**$ 2,798**	$ 336

b) Included in accounts payable is $15,393 (December 31, 2008 - $18,408) payable to companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.

c) Included in restricted cash and accounts payable is a deposit on a condominium unit of $355 from the Chairman and Chief Executive Officer. The unit will be purchased at market prices.

d) The Company has approved a resolution authorizing the property manager, a company commonly controlled by the Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the Company.

e) Professional services of approximately $294 (December 31, 2008 - $315) were purchased from a corporation of which one of the Company's directors is affiliated.

f) Also included in trade payables is a demand note payable plus accrued interest in the amount of EUR €2,376 ($3,573) (December 31, 2008 - EUR €2,284 ($3,938)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 5.619% per annum.

22. Related party transactions (cont.)

g) Also included in accounts payable is a demand note payable plus accrued interest in the amount of USD $1,291 ($1,355) (December 31, 2008 - $NIL) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.

h) Included in accounts receivable is a demand note receivable in the amount of EUR €6,795 ($10,220) (December 31, 2008 - $NIL) receivable from a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 7.25% per annum.

i) The Company has entered into a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum is 2.0% on the Series 2 Bonds, and 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. The amount of $2,898 expensed in 2009 is exclusive of the amount of $4,571 which was included as a restatement to opening retained earnings (Note 30).

j) Included in non-construction demand loans is a promissory note payable plus interest in the amount of EUR €7,519 ($11,310) bearing interest at 6.0% per annum. This amount relates to the Company's investment in Homburg Eastern European Fund B.V. and is payable to that entity, and has no specific repayment terms.

k) Property and Asset Management Service Fees
The Company has entered into a Property and Asset Management Agreement, which expires on June 30, 2016, with a company commonly controlled by the 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) are in place, the Manager will not receive any property management fees;
(ii) For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases are not in place, fees will be a percentage of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 5% of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries);
(iii) For investment properties situated in Europe where Single Tenant Triple Net Leases are not in place, fees will be a percentage of annual rents as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 3.5% of annual rents;
(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 include the total hard and soft costs (including interest), but exclude land cost. The Manager will be 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 shall 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) are in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where a Single Tenant Triple Net Leases (as such term is defined above) are 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 will assume 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 are 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 will not be 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.

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

(CAD $ thousands except per share amounts)

23. Commitments

	2010	2011	2012	2013	2014	Later
Future minimum lease payments:						
Operating leases of subsidiaries	$ 3,277	$ 402	$ 422	$	$	$
Operating leases of the Company (a)	3,479	13,914	13,914	14,567	14,567	188,931
Emphyteutic lease (b)	112	112	112	112	112	5,663
	$ 6,868	$ 14,428	$ 14,448	$ 14,679	$ 14,679	$ 194,594

Operating leases expensed in the statement of earnings (loss) with respect to minimum lease payments in the year ended December 31, 2009 was $724 (December 31, 2008 - $2,638).

a) The Company is working toward sub-leasing this space prior to the occupancy date, which is expected to be in the fourth quarter of 2010. Any sub-lease would offset the Company's future obligation under the lease commitment. Any difference between the operating lease expense incurred and sub-lease revenues earned will be recognized over the term of the related leases.
b) The emphyteutic lease commitment relates to land for an income producing property of a subsidiary and expires in 2065.
c) The Company has a headlease obligation related to the investment property owned by DEGI L.P., in which the Company has a 10% interest (Note 6), for any vacant space that may exist at the date of completion of construction, which was substantially complete on December 31, 2009. Based upon current lease commitments for the related space in place at period end, the estimated value of the net headlease obligation is not material.
d) The Company and its subsidiaries have entered into various property management agreements, expiring between 2010 and 2016 (Note 22a).
e) The Company has construction projects underway to which it has signed commitments of $2,527.

24. Contingent liabilities

a) There are claims which the Company is involved with, arising out of the ordinary course of business operations. The Company does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

b) One subsidiary has received a transfer tax assessment and specific other subsidiaries of the Company have been advised of pending potential transfer tax assessments. The tax assessments, both issued and potentially to be issued, would impose transfer tax on the acquisition of certain properties by the subsidiaries. The potential liability would be EUR €10,831 ($16,291) (December 31, 2008 - EUR €10,831 ($18,670)) and would increase the cost of the applicable properties should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 ($2,707) (December 31, 2008 - EUR 1,800 ($3,103)); an additional EUR €7,831 ($11,779) (December 31, 2008 - EUR €7,831 ($13,499)) was indicated for potential assessment, and to date no additional assessments have been received. The remaining amount of EUR €1,200 ($1,805) (December 31, 2008 - EUR €1,200 ($2,068)) relates to an acquisition in 2008, and is similar in structure to the acquisition that has already been assessed. The Company has reviewed this matter, has received legal advice, and believes it is not required to pay the transfer tax on any of these acquisitions. Accordingly, the Company has not recorded any of the proposed transfer tax in its consolidated financial statements.

25. Rental income under operating leases

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

	2010	2011	2012	2013	2014	Later
Future minimum rental income:	$ 252,840	$ 240,338	$ 226,742	$ 209,191	$ 191,077	$ 1,403,765

26. 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 - Canada, USA, 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.

(CAD $ thousands except per share amounts)

26. Segmented information (cont.)

	Germany	Netherlands	The Baltics	Canada	US	Total
Year ended December 31, 2009						
Property revenue	**$ 86,929**	**$ 41,936**	**$ 21,780**	**$ 138,668**	**$ 18,418**	**$ 307,731**
Operating expenses	**10,361**	**6,328**	**6,595**	**71,173**	**5,897**	**100,354**
	$ 76,568	**$ 35,608**	**$ 15,185**	**$ 67,495**	**$ 12,521**	**$ 207,377**
Year ended December 31, 2008						
Property revenue	$ 81,527	$ 42,598	$ 20,251	$ 136,927	$ 18,008	$ 299,311
Operating expenses	1,161	5,593	5,151	65,261	4,947	82,113
	$ 80,366	$ 37,005	$ 15,100	$ 71,666	$ 13,061	$ 217,198
December 31, 2009						
Investment properties	**$ 758,747**	**$ 544,356**	**$ 241,297**	**$ 1,016,877**	**$ 153,318**	**$ 2,714,595**
Mortgages payable	**$ 659,610**	**$ 400,198**	**$ 198,516**	**$ 591,013**	**$ 95,349**	**$ 1,944,686**
Mortgage bonds payable	**$ 34,981**	**$ 42,089**	**$**	**$ 113,168**	**$**	**$ 190,238**
December 31, 2008						
Investment properties (Note 30)	$ 1,066,029	$ 646,936	$ 297,754	$ 1,017,622	$ 179,199	$ 3,207,540
Mortgages payable	$ 766,780	$ 471,324	$ 228,818	$ 545,268	$ 112,908	$ 2,125,098
Mortgage bonds payable	$ 34,493	$	$	$ 193,875	$	$ 228,368

In addition to the above, the Canada segment derived revenue from the sale of properties developed for resale of $63,884 (December 31, 2008 - $191,260), less costs of development of $107,767 (December 31, 2008 - $142,841), which resulted in gross income (loss) from operations of $(43,883) (December 31, 2008 - income of $48,419). At December 31, 2009 the Germany segment included one (December 31, 2008 - one) tenant that individually represented 19% (December 31, 2008 - 17%) of the Company's consolidated property revenue for the period. Property operating expenses include $252 relating to vacant properties (December 31, 2008 - $55).

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).

	Retail	Industrial	Office	Residential	Total
Year Ended December 31, 2009					
Property revenue	**$ 84,923**	**$ 34,782**	**$ 179,124**	**$ 8,902**	**$ 307,731**
Operating expenses	**36,817**	**9,761**	**46,921**	**6,855**	**100,354**
	$ 48,106	**$ 25,021**	**$ 132,203**	**$ 2,047**	**$ 207,377**
Year Ended December 31, 2008					
Property revenue	$ 88,377	$ 39,707	$ 162,809	$ 8,418	$ 299,311
Operating expenses	37,578	3,158	35,857	5,520	82,113
	$ 50,799	$ 36,549	$ 126,952	$ 2,898	$ 217,198
December 31, 2009					
Investment properties	**$ 683,908**	**$ 289,832**	**$ 1,688,577**	**$ 52,278**	**$ 2,714,595**
Mortgages payable	**$ 350,649**	**$ 354,332**	**$ 1,147,075**	**$ 92,630**	**$ 1,944,686**
Mortgage bonds payable	**$ 40,982**	**$ 34,136**	**$ 38,051**	**$**	**$ 113,169**
December 31, 2008					
Investment properties (Note 30)	$ 708,328	$ 493,592	$ 1,946,844	$ 58,776	$ 3,207,540
Mortgages payable	$ 244,427	$ 415,051	$ 1,405,197	$ 60,423	$ 2,125,098
Mortgage bonds payable	$ 51,714	$ 26,761	$ 7,734	$	$ 86,209

At December 31, 2009 mortgage bonds payable totalled $190,238, exclusive of the currency guarantee payable of $5,036. Of this amount $77,069 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining $113,169 is allocated to specific segments above. At December 31, 2008, mortgage bonds payable totalled $228,368, exclusive of the currency guarantee receivable of $28,165. Of this amount $142,159 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining $86,209 is allocated to specific segments above.

(CAD $ thousands except per share amounts)

27. Interests in joint ventures

The Company owned a direct or indirect partial interest in the following joint venture L.P.'s which were active at December 31, 2009:

Joint venture	Location	Property type	% Owned
Homco Realty Fund (22) L.P.	Canada	Commercial	5.63%
Homco Realty Fund (26) L.P.	Canada	Commercial	38.46%
Homco Realty Fund (49) L.P.	Canada	Residential	5%
An 80% interest in the Cedar joint venture, which holds a 100% interest in nine separate L.P.'s	USA	Commercial	80.00%
Homburg SNS Property Finance L.P.	Canada	None	50.00%
A 66.67% interest in three separate L.P.'s, held by Homburg SNS Property Finance L.P	Canada	Two parcels of land, and one residential development property	33.33%

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

	2009	2008
Assets		
Cash and cash equivalents	**$ 4,310**	$ 3,071
Development properties	**71,227**	63,405
Receivables and other	**3,080**	2,214
Deferred charges	**2,908**	3,800
Investment properties	**144,966**	176,630
	$ 226,491	$ 249,120
Liabilities		
Accounts payable and other liabilities	**$ 5,725**	$ 5,714
Security deposits and prepaid rent	**548**	1,463
Mortgages payable	**146,689**	157,838
	$ 152,962	$ 165,015
Revenues		
Property revenue	**$ 14,883**	$ 15,478
Sale of properties developed for resale	**3,630**	2,199
Gain on sale	**250**	443
	$ 18,763	$ 18,120
Expenses		
Property operating expenses	**$ 3,554**	$ 3,708
Cost of sale of properties developed for resale	**3,222**	1,801
General and administrative expenses	**1,123**	471
Mortgage interest	**5,722**	5,523
Depreciation and amortization	**2,792**	3,784
	$ 16,413	$ 15,287
Cash flows		
Net cash from (used in) operating activities	**$ 1,842**	$ 6,426
Net cash from financing activities	**$ 8,702**	$ 64,482
Net cash used in investing activities	**$ (9,978)**	$ (68,797)

28. Subsequent events

a) Management is continuing to work towards the restructuring of the Company previously announced on December 16, 2009. As the initial step in the reorganization, it is expected that a preliminary prospectus for the Initial Public Offering ("IPO") of the Homburg Canada Real Estate Income Trust ("REIT") will be filed in the second quarter of 2010.

b) Subsequent to year end, the Company arranged a new credit facility (which has been fully utilized) in the amount of EUR €47.5 million, secured by way of the shares of a subsidiary company which owns an investment property.

28. Subsequent events (cont.)

c) As part of the proposed REIT IPO announced by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements (Note 22) should be internalized. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of $21.6 million provided for under the agreement, effective February 25, 2010. The payment was made on condition that management responsibilities would be fulfilled under the agreements until the finalization of the REIT IPO. If the REIT IPO was not completed, the amount paid would instead be credited against management services in accordance with the original agreements.

d) Subsequent to year end, the Company reduced the working capital deficit by paying down related party payables (Note 20) of approximately $26 million.

e) Subsequent to year end, the Company acquired a company controlled by the Chairman and CEO which holds Homburg Bond 11 notes issued by the Company, for $19.6 million.

f) Subsequent to year end, the Company sold six properties for gross proceeds of approximately $46.4 million (Note 16). Approximately $27.0 million (EUR €18.0 million) of the net proceeds was utilized towards the partial redemption of Homburg Mortgage Bond 2, and approximately $8 million was used to repay specific mortgages relating to the properties (Note 20).

g) Subsequent to year end, the Company settled its liability in relation to the DIM 2010 Shares. The Company currently holds 766,573 shares of DIM which will be converted to 536,601 Equity One shares (Notes 6 and 12).

h) The Company has received indication of a favourable response to a request for an Advance Income Tax Ruling. Upon receipt of the final Ruling, the Company will reorganize the assets of a subsidiary Trust of which it is the sole beneficiary. Upon completion of the reorganization, it is expected that the Company will realize a capital loss sufficient to enable a carry back to 2007 to fully offset the remaining income tax payable for discontinued operations (Note 16). The expected benefit has been recognized at December 31, 2009.

29. 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.

30. Comparative figures

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

The retroactive application of CICA Handbook Section 3064 "Goodwill and Intangible Assets" (Note 3) resulted in a decrease in property operating expenses in 2008 of $835, with a corresponding increase in depreciation and amortization expense, and the net book value of investment properties at December 31, 2008 increased by $3,357, with a corresponding decrease to deferred leasing costs.

Comparative amounts were also reclassified by EUR €6,869 ($11,841) which was previously included in the December 31, 2008 balance sheet as a long term payable and has been reclassified as a reduction to investment properties. Also, certain comparative amounts have been restated with respect to the currency guarantee receivable, which was erroneously overstated in prior periods by $4,571 according to the contractual terms of the agreements. The impact of the restatement was a reduction of $4,571 to the currency guarantee receivable ($28,165 as previously reported, $23,594 restated) with a corresponding adjustment to opening retained earnings ($5,494 as previously reported, $923 restated).

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Homburg Invest Inc. ("Homburg Invest" or the "Company") audited consolidated financial statements and accompanying notes for the year ended December 31, 2009 prepared under Canadian generally accepted accounting principles ("GAAP").

DATE OF MD&A
March 30, 2010

FORWARD LOOKING ADVISORY

Certain information included in this Management Discussion and Analysis ("MD&A") contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2009 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 Homburg Invest Inc.'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; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. Homburg Invest Inc., except as required by applicable law, undertakes no obligation to publicly update or revise any forward looking statements.

PROPERTIES OWNED

Homburg Invest Inc. ("Homburg Invest", "HII" or the "Company") is a public real estate company owning 249 properties with an estimated net book value ("NBV") of $3.1 billion and 19.7 million square feet of space as at December 31, 2009 (excluding discontinued operations and assets held for sale) in four main asset classes (office, retail, industrial, and multi-family residential) and in five main geographical areas (Canada, Germany, The Netherlands, the Baltic States (Latvia, Estonia and Lithuania) and the United States of America ("USA").

	December 31, 2009 *(Millions, except for properties and units)*				December 31, 2008 *(Millions, except for properties and units)*			
	Buildings	**NBV**	**Units**	**Gross Sq.Ft.**	Buildings	NBV	Units	Gross Sq.Ft.
By geographical segment								
Germany	**18**	**$ 758.7**		**5.1**	18	$ 1,066.0		5.1
The Netherlands	**32**	**544.4**		**3.7**	32	646.9		3.7
Baltic States	**53**	**241.3**		**1.0**	53	297.8		1.0
Canada	**110**	**1,016.9**	**762**	**8.9**	115	1,017.6	762	9.1
USA	**20**	**153.3**		**1.0**	20	179.2		1.0
Total	**233**	**$ 2,714.6**	**762**	**19.7**	**238**	**$ 3,207.5**	**762**	**19.9**
By property type								
Office	**101**	**$ 1,688.6**		**6.9**	101	$ 1,946.8		6.9
Retail	**82**	**683.9**		**5.8**	87	708.3		5.9
Residential	**12**	**52.3**	**762**	**0.7**	12	58.8	762	0.7
Industrial	**38**	**289.8**		**6.4**	38	493.6		6.4
Sub total	**233**	**2,714.6**	**762**	**19.7**	**238**	**3,207.5**	**762**	**19.9**
Land and property held for future development (a)	**8**	**120.0**			7	125.7		
Construction properties being developed for resale (b)	**6**	**115.1**			6	139.2		
Investment property under construction (c)	**2**	**109.8**			3	95.7		
Total	**249**	**$ 3,059.5**	**762**	**19.7**	**254**	**$ 3,568.1**	**762**	**19.9**

a) Land and property held for future development - a 146 acre parcel of land on the outskirts of Calgary, Alberta, intended to be developed into single family and multi residential units; a 140 acre parcel of land on the outskirts of Calgary, Alberta, intended to be developed into single family and multi residential units; a parcel of land in Calgary, Alberta that the Company intends to develop into a condominium complex containing 214 units; a 217 acre parcel of land in Calgary, Alberta with intent to be developed into commercial properties; a 39 acre parcel of land in Calgary, Alberta that the Company intends to develop primarily into approximately 600 single family dwellings; a one third interest in a 777 acre parcel of land on the outskirts of Calgary, Alberta intended to be developed into a mix of commercial, industrial, single family and multi-residential units; a parcel of land in Montreal, Quebec; and a 4 story building in Montreal, Quebec.

b) Construction properties being developed for resale - 19 condominium units in Calgary, Alberta (Castello); 23 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); 75 condominium units in Grande Prairie, Alberta (Inverness Estates); 18 condominium units in Charlottetown, Prince Edward Island (Pownell Street); a one third interest in 101 condominium units in Montreal, Quebec (333 Sherbrooke East); and a 458 unit condominium complex in Calgary, Alberta (Kai Towers).

c) Investment property under construction - a parcel of land in Calgary, Alberta that will be developed into a seven building office campus; and a parcel of land in Charlottetown, Prince Edward Island that will be developed into an office tower and hotel.

NON-GAAP FINANCIAL MEASURES

This MD&A includes measures widely accepted within the real estate industry which are not defined by Canadian generally accepted accounting principles ("GAAP"). These measures include Net Operating Income ("NOI"), Funds From Operations ("FFO") and FFO per share. These are not defined measures calculated in accordance with GAAP 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 earnings (loss) adjusted for depreciation and amortization, future and capital income taxes (recovery), loss (gain) on sale of assets, fair value change in financial instruments, loss (gain) on derivative instruments, goodwill impairment loss, impairment loss on development and investment properties, changes in the fair value of assets classified as available for sale, and foreign exchange loss (gain).

c) FFO per share is calculated as FFO divided by either the basic or diluted weighted average number of shares.

The following table reconciles GAAP net earnings (loss) to FFO for the three month periods and years ended December 31, 2009 and 2008:

	3 Months Ended December 31 2009	**Year Ended December 31 2009**	3 Months Ended December 31 2008	Year Ended December 31 2008
	(Millions)	*(Millions)*	*(Millions)*	*(Millions)*
Net loss from continuing operations	**$ (216.7)**	**$ (247.3)**	$ (116.2)	$ (97.8)
Add (deduct):				
Gain on sale of assets		**(2.2)**	(0.4)	(0.4)
Depreciation and amortization	**14.4**	**65.1**	18.5	62.1
Amortization of financing costs	**1.4**	**4.9**	1.5	9.4
Amortization of mark to market leases	**0.5**	**4.8**	(0.7)	0.9
Future and capital income taxes (recovery)	**(18.2)**	**(37.9)**	(7.7)	(11.0)
Fair value change in financial instruments	**(0.8)**	**1.2**	11.0	23.1
Impairment loss on development properties	**43.6**	**49.1**		
Impairment loss on investment properties	**182.0**	**182.0**		
Goodwill impairment loss			63.5	63.5
Loss (gain) on derivative instruments	**(0.6)**	**7.5**	17.6	18.5
Foreign exchange loss (gain)	**(8.0)**	**(24.2)**	25.1	19.7
Funds from operations (FFO)	**(2.4)**	**3.0**	12.1	87.9
Add (deduct): gross income (loss) on sale of properties developed for resale	**18.9**	**43.9**	(2.1)	(48.4)
FFO, net of sale of properties developed for resale	**$ 16.5**	**$ 46.9**	$ 10.0	$ 39.5

SELECTED ANNUAL INFORMATION

The following financial information is being provided under National Instrument 51-102 *Continuous Disclosure Obligations*. The annual information shown below is provided for the last three years, and the quarterly information for the last eight quarters is provided in the following section. The Company's reporting currency is Canadian dollars.

		2009		2008		2007(1)
	(Millions, except for per share amounts)					
Property revenue	**$**	**307.7**	$	299.3	$	207.3
Sale of properties developed for resale		**63.9**		191.3		229.1
Gain on sale of assets		**2.2**		0.4		2.1
Gain on derivative instruments						2.3
Other income		**27.4**		4.8		25.1
Total revenues and other gains	**$**	**401.2**	$	495.8	$	465.9
Net operating income	**$**	**207.4**	$	217.2	$	162.2
Earnings (loss) before income taxes - continued operations	**$**	**(292.4)**	$	(102.5)	$	97.6
Per Share - Basic	**$**	**(14.81)**	$	(5.17)	$	6.00
Per Share - Diluted	**$**	**(14.81)**	$	(5.17)	$	5.72
Net earnings (loss) - continued operations	**$**	**(247.3)**	$	(97.8)	$	81.3
Per Share - Basic	**$**	**(12.52)**	$	(4.94)	$	5.00
Per Share - Diluted	**$**	**(12.52)**	$	(4.94)	$	4.76
Net earnings (loss) - discontinued operations	**$**	**(0.4)**	$	1.7	$	(2.2)
Per Share - Basic	**$**	**(0.02)**	$	0.09	$	(0.13)
Per Share - Diluted	**$**	**(0.02)**	$	0.09	$	(0.13)
Net earnings (loss)	**$**	**(247.7)**	$	(96.1)	$	79.2
Per Share - Basic	**$**	**(12.54)**	$	(4.85)	$	4.87
Per Share - Diluted	**$**	**(12.54)**	$	(4.85)	$	4.64
Funds from operations	**$**	**46.9**	$	39.5	$	124.2
Per Share - Basic	**$**	**2.36**	$	1.79	$	7.63
Per Share - Diluted	**$**	**2.36**	$	1.79	$	7.27
Total assets (2008 restated)	**$**	**3,366.7**	$	4,013.5	$	3,531.6
Total long term financial liabilities	**$**	**2,641.7**	$	2,916.7	$	2,122.7
Dividend declared per share	**$**	**NIL**	$	4.49	$	3.93

(1) 2007 results have not been reclassified for discontinued operations occurring in 2009.

Property Acquisitions
The significant increase in net operating income from 2007 to 2008 reflects the growth of the Company's property portfolio. The most significant transactions in the three year period were:

- The acquisition of 17 buildings in Quebec, Canada (the Alexis Nihon transaction) for $552.6 million in April 2007;
- The acquisition of the CN Central Station Complex in Montreal, Canada for $369.4 million in December 2007;
- The acquisition of 54 buildings in the Baltics for $221.9 million in December 2007 and March 2008; and
- The acquisition of an 80% interest in 9 limited partnerships in the US for $139.4 million in December 2007.

These transactions had a significant impact on the annual results for the years in which they were acquired and in subsequent years. Consolidated square footage from these acquisitions increased from 19.7 million square feet at December 31, 2007, to 19.9 million square feet at December 31, 2008 (increase of 1.0%). Square footage remained flat from 2008 to 2009 at 19.7 million square feet. The 3.6% increase in square footage from 2007 to 2008 is not consistent with the 44.4% increase in property revenue over the same period because three of the large acquisitions in 2007 occurred in December, and therefore had a minimal impact on property revenue in 2007.

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

	Q4 Average Rate		Q3 Average Rate		Q2 Average Rate		Q1 Average Rate	
EUR : CAD	2009	1.58706	2009	1.59533	2009	1.60749	2009	1.62509
EUR : CAD	2008	1.56127	2008	1.55022	2008	1.54209	2008	1.50465
% Change		***1.7%***		***2.9%***		***4.2%***		***8.0%***
USD : CAD	2009	1.14172	2009	1.16997	2009	1.20559	2009	1.24298
USD : CAD	2008	1.06669	2008	1.01855	2008	1.00752	2008	1.00465
% Change		***7.0%***		***14.9%***		***19.7%***		***23.7%***

	Year-End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	2009	1.50410	Q4 2009	1.50410	Q3 2009	1.58480	Q2 2009	1.62400	Q1 2009	1.65040
EUR : CAD	2008	1.72380	Q3 2009	1.58480	Q2 2009	1.62400	Q1 2009	1.65040	Q4 2008	1.72380
% Change		***(12.7)%***		***(5.1)%***		***(2.4)%***		***(1.6)%***		***(4.3)%***
USD : CAD	2009	1.04940	Q4 2009	1.04940	Q3 2009	1.08610	Q2 2009	1.15600	Q1 2009	1.24960
USD : CAD	2008	1.22280	Q3 2009	1.08610	Q2 2009	1.15600	Q1 2009	1.24960	Q4 2008	1.22280
% Change		***(14.2)%***		***(3.4)%***		***(6.0)%***		***(7.5)%***		***2.2%***

	Q4 Average Rate		Q3 Average Rate		Q2 Average Rate		Q1 Average Rate	
EUR : CAD	2008	1.56127	2008	1.55022	2008	1.54209	2008	1.50465
EUR : CAD	2007	1.46919	2007	1.48570	2007	1.50959	2007	1.53586
% Change		***6.3%***		***4.3%***		***2.2%***		***(2.0)%***
USD : CAD	2008	1.06669	2008	1.01855	2008	1.00752	2008	1.00465
USD : CAD	2007	1.07440	2007	1.10606	2007	1.13599	2007	1.17207
% Change		***(0.7)%***		***(7.9)%***		***(11.3)%***		***(14.3)%***

	Year-End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	2008	1.72380	Q4 2008	1.72380	Q3 2008	1.50010	Q2 2008	1.59740	Q1 2008	1.61660
EUR : CAD	2007	1.44640	Q3 2008	1.50010	Q2 2008	1.59740	Q1 2008	1.61660	Q4 2007	1.44640
% Change		***19.2%***		***14.9%***		***(6.1)%***		***(1.2)%***		***11.8%***
USD : CAD	2008	1.22280	Q4 2008	1.22280	Q3 2008	1.03820	Q2 2008	1.01110	Q1 2008	1.02320
USD : CAD	2007	0.98200	Q3 2008	1.03820	Q2 2008	1.01110	Q1 2008	1.02320	Q4 2007	0.98200
% Change		***24.5%***		***17.8%***		***2.7%***		***(1.2)%***		***4.2%***

Euro-Canadian dollar exchange rate: Fluctuations in the Euro exchange rates, compared to the Canadian dollar, impact the results of the Company's significant European operations located in Germany, The Netherlands, and the Baltic States, as well as the Company's unhedged Euro denominated debt which consisted of €100.0 million at December 31, 2009 and €93.2 million at December 31, 2008. Average quarterly Euro exchange rates compared to the Canadian dollar fluctuated during the last eight quarters, peaking at $1.63 in Q1 2009 from a low average rate of $1.50 in Q1 2008 (a variance of 8.6%). The average rate for Q4 2009 of $1.59 was 1.7% higher than the comparative period average rate of $1.56 which had a favourable impact on the results of the Company's European operations when comparing Q4 2009 to Q4 2008. The closing rate at December 31, 2009 of $1.50 was 5.1% lower than the closing rate of $1.58 at September 30, 2009, which favourably reduced the Canadian dollar equivalent amount of the Company's unhedged Euro denominated debt which stood at €100.0 million at December 31, 2009.

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 less than 7% of NOI in 2009 and less than 6% of NOI in 2008 . Fluctuations in the US dollar also impact the Company's unhedged US dollar denominated debt which consisted of US$20 million at both December 31, 2009 and December 31, 2008.

Discontinued operations and assets held for sale
During 2007, the Company disposed of 19 office rental properties and 28 industrial rental properties for proceeds of $574.7 million; the operating results are included in net loss from discontinued operations for the two month period these properties were owned. Also during 2007, the Company disposed of 7 industrial properties for proceeds of $17.3 million. The related liabilities are recorded as liabilities of discontinued operations in the consolidated balance sheet. There were no discontinued operations in 2008.

During 2009, the Company disposed of 5 retail properties for proceeds of $36.8 million. The Company reclassified a further 4 retail properties, 3 office properties and 1 residential property to assets held for sale, with combined gross square footage of 0.45 million.

Stock Consolidation and "In-Kind" Dividend
On December 12, 2008, the Company's shareholders approved a stock consolidation of the Class A Subordinate Voting Shares and Class B Multiple Voting Shares. Under the consolidation, each 10 pre-consolidation shares, whether Class A or Class B, were exchanged for 1 post-consolidation share in the same class of share, either of Class A or Class B. The terms of the Class A and Class B shares remained otherwise unchanged. Also, in September 2008, the Company declared a dividend of $2.25 per share on all issued and outstanding shares. The dividend was paid "in-kind" by issuing Class A Subordinate Voting Shares at a fair value price of $32.65 per share. The fair value was determined based on the weighted average trading price of the Class A Shares for a five day trading period prior to the date of the dividend declaration. After giving effect to the cash payment of non-resident withholding taxes and fractional shares, 0.068593 Class A Shares were issued for each outstanding Class A and Class B Multiple Voting Share.

All current and comparative reported share and per share amounts have been retrospectively adjusted to reflect the 1 for 10 stock consolidation and the dilutive effect of the "in-kind" dividend.

OVERALL PERFORMANCE

Property Revenue
Total property revenue was $299.3 million in 2008, compared to $207.3 million in 2007, an increase of $92.0 million or 44.4%. The Canada segment increased by $57.3 million, as a full year of revenue was recorded in 2008 on the Alexis Nihon REIT and CN Central Station acquisitions which occurred in 2007. The Baltic States segment increased by $19.6 million and the USA segment increased by $13.3 million; similar to the Canada segment, these increases relate mainly to a full year of revenue being recorded in 2008 on acquisitions which occurred in 2007. These increases collectively account for 89% of the overall increase in property revenue from 2007 to 2008. The European results were also favourably impacted by slightly higher average Euro exchange rates during the last three quarters of 2008 compared to 2007, as well as a full year of revenue being recorded in 2008 on some property acquisitions in The Netherlands which occurred in June 2007, and some scheduled rent increases.

Total property revenue was $307.7 million in 2009, compared to $299.3 million in 2008, an increase of 2.8%. Property revenue on the European portfolio increased by 4.3% from $144.4 million in 2008 to $150.6 million in 2009. This increase is consistent with the 2009 quarter over 2008 quarter increase in the EUR-CAD exchange rate ranging from 8.0% in Q1 2009 to 1.7% in Q4 2009. Property revenue from the Canada segment increased slightly to $138.7 million in 2009 compared to $136.9 million in 2008, representing a 1.3% increase, which is reflective of the stable base of investment properties, tenants, leasing and occupancy rates during these periods. Property revenue from the US segment was relatively unchanged at $18.4 million in 2009 compared to $18.0 million in 2008. A more detailed analysis of the Company's segmental results is included later in this MD&A.

Revenue and Gross Profit from the Sale of Properties Developed for Resale
Revenue and gross profits and losses (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale fluctuates depending on level of activity in the development pipeline, the time taken to complete various projects, the relative strength of selling prices in the real estate market, and other unique or singular events.

Revenue from the sale of properties developed for resale was $191.3 million in 2008 compared to $229.1 million in 2007, a decrease of $37.8 million. Revenue from the sale of the Homburg-Harris Centre in Calgary, Alberta, was approximately $72 million lower in 2008 compared to 2007. This was consistent with management's expectations as revenues are being recognized on the percentage of completion method as construction progresses. The additional percentage completed in 2008 was approximately 37%, compared to 50% completion at December 31, 2007. This decrease was offset by revenue from the sale of an office development in Calgary, Alberta, of approximately $35 million in 2008. Revenue from the sale of condominium units was consistent in 2008 compared to 2007 at approximately $40 million. Gross profit from the sale of development properties was $48.4 million in 2008 compared to $81.5 million in 2007, due to lower revenue being recognized on the completion of the Homburg-Harris Centre as previously described.

Revenue decreased by $127.4 million from $191.3 million in 2008 to $63.9 million in 2009. Revenue from the sale of the Homburg-Harris Centre in Calgary, Alberta decreased by $75 million due to a lower level of development activity as Tower 2 neared completion in December 2009 (Tower 1 was completed in December 2008). Revenue from the sale of condominium units was $19 million lower in 2009 compared to 2008, reflecting a softening of real estate prices and slower activity in the Canadian market following the global economic downturn in late 2008. There were no office developments for resale in 2009, resulting in a decrease of $34 million in revenue compared to 2008. Gross loss from the sale of development properties was $44.0 million in 2009, which resulted from unexpected budget increases as the Homburg-Harris Centre neared completion, and lower prices attained on condominium units.

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

Net operating income ("NOI") increased by approximately $55.0 million or 33.9% from $162.2 million in 2007 to $217.2 million in 2008, mainly as a result of the increase in property revenues arising from the acquisitions in late 2007 as described earlier.

NOI decreased by approximately $9.8 million or 4.5% from $217.2 million in 2008 to $207.4 in 2009, mainly as a result of the impact of a bad debt expense of approximately $5.6 million relating to a former tenant, Quelle, which vacated a property in Germany on December 31, 2009. Otherwise, NOI has been relatively stable over the last eight quarters in 2008 and 2009 in light of the global economic crisis which began in late 2008. NOI was positively impacted during each of the four quarters in 2008 from the translation of European results, as the Canadian dollar gradually weakened against the Euro during this period, from $1.50:€1 in Q1 2008 to $1.56:€1 in Q4 2008 (i.e. the Euro appreciated by approximately 4%). In 2009, the Canadian dollar gradually strengthened against the Euro, from an average rate of $1.63:€1 in Q1 2009 to an average rate of $1.59€1 in Q4 2009 (i.e. the Euro depreciated by approximately 2.5%), which negatively impacted NOI during each quarter in 2009.

Other Income and Gains
Other income decreased by approximately $20.3 from $25.1 million in 2007 to $4.8 million in 2008, mainly as a result of a foreign exchange gain of approximately $18 million being recorded in 2007 primarily due to the strengthening of the Canadian dollar during that year compared to both the US dollar and the Euro which decreased the Canadian dollar equivalent of unhedged foreign denominated debt. A foreign exchange loss of approximately $20 million was recorded in 2008 due to the weakening of the Canadian dollar against the US dollar and Euro, which increased the Canadian dollar equivalent of unhedged foreign denominated debt. The most significant impact resulted from the CAD:EUR rate which stood at $1.45:€1 at December 31, 2007, compared to $1.72:€1 at December 31, 2008, its highest level since January 1999. This represented an increase of approximately 19.2% during 2008.

Other income increased by approximately $22.6 million from $4.8 million in 2008 to $27.4. A foreign exchange gain of approximately $24.2 million was recorded in 2009 due to the strengthening of the Canadian dollar against the US dollar and Euro, which decreased the Canadian dollar equivalent of unhedged foreign denominated debt. The most significant impact resulted from the CAD:EUR rate which stood at $1.72:€1 at December 31, 2008, compared to $1.50:€1 at December 31, 2009. This represented a decrease of approximately 12.8% during 2009.

Interest Expense

Interest expense on long term debt for 2008 was $151.0 million, compared to $106.8 million in 2007, an increase of $44.2 million, reflecting the significant increase in debt related to the property acquisitions which occurred in late 2007, described earlier, as well as the issuance of an additional €93 million (out of a total of €100 million) corporate non-asset backed bond in 2008 (Bond 11) at an interest rate of 7.25%. Other interest and financing costs were relatively flat in 2008 at $11.9 million in 2008 compared to $13.1 million in 2007, mainly due to the corporate non-asset backed bonds issued during those years.

Interest expense in long term debt for 2009 was $149.5 million, compared to $151.0 million in 2008, a slight decrease of $1.5 million, primarily as a result of a slight increase in the weighted average fixed interest rate on long term debt which increased to 6.00% at December 31, 2009 compared to 5.94% at December 31, 2008.

The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €159.9 million ($240.5 million) of its long term debt (December 31, 2008 - EUR €161.2 million ($277.8 million)). During the year ended December 31, 2008, due to a reduction of interest rates in The Netherlands, Germany and the Baltics, a loss of $18.5 million was recorded on this derivative financial instrument. Interest rates in Europe continued at reduced amounts during the year ended December 31, 2009, leading to a further loss of $7.5 million being recorded in 2009.

Depreciation and Amortization

Depreciation and amortization expense was $62.1 million in 2008, an increase of $22.8 million over the 2007 expense of $39.3 million, mainly as a result of the significant property acquisitions described earlier.

Depreciation and amortization amounted to $65.1 million in 2009 compared to $62.1 in 2008, an increase of $3.0 million, primarily as a result of increases with respect to foreign denominated depreciable property arising from higher average Euro exchange rates to the Canadian dollar in 2009 compared to 2008.

General and Administrative

General and administrative expenses were $23.3 million in 2008 compared to $11.1 million in 2007, an increase of $12.2 million, mainly as a result of the significant property acquisitions occurring in late 2007, described earlier. The Company recorded a stock based compensation expense of $0.3 million in 2008 compared to $5.3 million in 2007, a decrease of $5.0 million.

General and administrative expenses were stable at $23.4 million in 2009 compared to $23.3 million in 2008.

Earnings Before Taxes From Continuing Operations

Earnings before taxes from continuing operations was $97.6 million in 2007 compared to a net loss of $102.5 million in 2008, a decrease of $200.1 million. This was primarily due to:

- The significant property acquisitions in late 2007 which had the following impact on the results:
  - An increase in NOI of approximately $55.0 million (described earlier);
  - An increase in depreciation and amortization of approximately $22.8 million;
  - An increase in interest on long term debt of approximately $44.2 million due to the increase in long term liabilities to finance the significant acquisitions in December 2007 and an additional EUR €93 million raised in corporate non-asset backed bonds in 2008; and
  - An increase in general and administrative expenses of approximately $12.2 million;
- A reduction in gross income from the sale of properties developed for resale of approximately $37.8 million resulting from lower development activity in 2008 (described above), lower prices on the sale of condominium units and unexpected budget adjustments related to increased costs on the Homburg-Harris Centre as tower two neared completion;
- The impact of a $37.9 million difference between the foreign exchange gain of $18.3 million recorded in 2007 and the foreign exchange loss of $19.6 million recorded in 2008, mainly as a result of fluctuations in the Canadian dollar equivalent amount of unhedged foreign denominated debt caused by large variances in the Euro and US dollar exchange rates compared to the Canadian dollar (described above);
- The impact of a $20.8 million variance between the derivative instrument gain of $2.3 million recorded in 2007 compared to the $18.5 million loss recorded in 2008, arising mainly as a result of the interest rate swaps which do not qualify for hedge accounting and are adjusted to fair value at each reporting date through the income statement, as described earlier;
- A goodwill impairment loss of $63.4 million in 2008 ($33.4 million was recorded on acquisition in 2007 and $30.0 million was recorded in 2008 as purchase price equations were finalized), which arose mainly due to decreasing market prices for real estate properties and leases following the global economic crisis in late 2008; and
- The impact of a $24.0 million difference between the gain on fair value of investments of $0.9 million recorded in 2007 compared to a loss of $23.1million recorded in 2008, mainly as a result of lower share prices on the Company's quoted investments which arose following the global economic crisis in late 2008.

The loss before taxes from continuing operations was $102.5 million in 2008 compared to $292.4 million in 2009, a decrease of $189.9 million. As discussed previously, the decrease in total revenue and other gains of $94.6 million from $495.8 million in 2008 to $401.2 million in 2009 was primarily the result of $127.4 million less revenue from the sale of assets from the development pipeline, which was the result of the Homburg-Harris Centre being substantially completed in the fourth quarter of 2009, and lower sales from the slowing condominium market in Calgary. This was offset by higher other income, which primarily included the $24.2 million foreign exchange gain. Total expenses and other charges increased by $95.3 from $598.4 in 2008 to $693.7 in 2009. The $35.1 million in less cost of sales of properties developed for resale, $19.7 million less foreign exchange loss, $63.5 million less goodwill impairment, and $6.3 million less interest expense in 2009 was offset by an increase in impairment losses on development and investment properties of $49.1 million and $182.0 million respectfully. At December 31, 2009, the carrying value of certain development properties exceeded their net realizable value or were considered to be not recoverable where the fair value was less than their carrying value, resulting in an impairment charge of $49.1 million. In addition, carrying value of certain investment properties was considered to be not recoverable where the fair value was determined to be below the carrying value, resulting in an impairment charge of $182.0 million.

Funds From Operations
Funds From Operations ("FFO") net of development pipeline was $39.5 million in 2008 compared to $124.2 million in 2007, a decrease of $84.7 million, mainly due to the NOI increase as outlined above, offset by; additional interest on long term debt and other interest and financing costs of $46.9 million, additional general and administrative expenses of $12.9 million and a decrease in the development pipeline in 2008 as described above.

FFO net of development pipeline was $46.9 million in 2009, representing an increase of $7.4 million or 18.7% compared to 2008. The increase relates to lower interest and financing costs of $5.8 million primarily as a result of a reduction in bridge financing fees incurred in 2008 related to the acquisition of the CN Central Station Complex in December 2007, as well as decrease resulting from bond financing fees which did not recur in 2009. Current taxes (excluding capital taxes) decreased by $13.7 million from an expense of $6.3 million in 2008 to a recovery of $7.4 million in 2009, relating mainly to the carry back of income tax losses to prior years. Offsetting these increases to FFO is the decrease in NOI of $9.8 million as described above.

Balance Sheet Highlights
Total assets decreased by $646.8 million to $3,366.7 million in 2009 from $4,013.5 in 2008 mainly resulting from a $492.9 million reduction in investment properties. Of this decrease, $182.0 million relates to the impairment discussed above, and the remainder is due to the strengthening of the Canadian dollar against the Euro from $1.72 at December 31, 2008 to $1.50 at December 31. 2009, and normal depreciation of the assets.

Long term debt decreased by $274.9 million to $2,641.8 million in 2009 from $2,916.7 in 2008, mainly resulting from the previously discussed foreign exchange rate changes, and normal principal repayments.

Shareholders' equity decreased $207.5 million from $509.1 million at December 31, 2008 to $301.6 million at December 31, 2009. Net loss from continuing operations for 2009 amounted to $247.3 million. Accumulated other comprehensive loss decreased by $10.8 million due to increased unrealized foreign currency losses from 2008 related to changes in foreign currency rates. Share capital decreased by $6.8 million resulting from the Normal Course Issuer Bid. Other paid in capital increased by $32.2 million from the issue of Homburg Capital Securities A.

Global Economic Crisis, Liquidity, Capital Resources and Capital Commitments
The Company has been negatively impacted by global economic and current capital market conditions which have resulted in tightening lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company incurred net losses of $247.7 million and $96.1 million for the years ended December 31, 2009 and 2008, respectively, and is highly levered with a debt to equity ratio of 9.4:1 at December 31, 2009. Certain of the Company's debts are in breach of covenants. As a result of the Company's limited partnership structure, with respect to certain debts the recourse of the lender is generally limited to the specific assets held in or below the limited partnerships, and does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs. The Company's liquidity risks and actions being pursued to generate additional liquidity are more fully described in the "Liquidity, Capital Resources and Capital Commitments" section of this MD&A.

In response to the changes in global capital markets, on December 16, 2009, the Company announced that the Board of Directors authorized a major reorganization of the Company's real estate assets. As the initial step in the reorganization, the Company continues to progress towards the creation of the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt. It is expected that a preliminary prospectus for the initial public offering ("IPO") will be filed and that the Homburg Canada REIT will become a publicly traded REIT in the first half of 2010. The timing of the Homburg Canada REIT IPO transaction and the impact on the Company's liquidity is subject to uncertainty, however, if successful, cash proceeds from the IPO will be utilized to reduce debt and satisfy other obligations. The following table presents the Company's contractual obligations at December 31, 2009:

SUMMARY OF QUARTERLY RESULTS

	Three Months Ended							
	Dec 31 2009	**Sep 30 2009**	**Jun 30 2009**	**Mar 31 2009**	**Dec 31 2008**	**Sep 30 2008**	**Jun 30 2008**	**Mar 31 2008**
	(Millions, except for per share amounts)							
Property revenue	**77.3**	73.5	79.6	77.4	80.2	73.1	74.2	71.8
Sale of properties developed for resale	**13.0**	8.7	18.6	23.5	12.5	41.4	48.5	88.9
Dividend income and distributions	**0.7**	0.5	0.4				0.1	2.8
Other income	**8.1**	6.3	6.3	7.5		7.4	0.2	0.6
Gain on derivative instrument			3.9					
Gain on sale of assets			0.6	1.6	0.4			
Total revenues and other gains	**99.0**	89.0	109.4	110.0	93.2	121.9	122.9	164.2
Net operating income	**46.4**	51.4	54.6	54.9	56.7	52.8	54.3	52.6
Earnings (loss) before taxes from continued operations	**$ (246.4)**	$ (30.1)	$ (1.8)	$ (11.6)	$ (124.6)	$ 6.8	$ 7.8	$ 7.4
Per Share - Basic	**$ (12.51)**	$ (1.54)	$ (0.11)	$ (0.58)	$ (6.24)	$ 0.34	$ 0.39	$ 0.39
Per Share - Diluted	**$ (12.51)**	$ (1.54)	$ (0.11)	$ (0.58)	$ (6.24)	$ 0.33	$ 0.38	$ 0.38
Net earnings (loss) from continued operations	**$ (216.7)**	$ (20.6)	$ 3.7	$ (8.0)	$ (118.5)	$ 4.8	$ 9.8	$ 9.6
Per Share - Basic	**$ (11.09)**	$ (1.04)	$ 0.19	$ (0.40)	$ (5.93)	$ 0.24	$ 0.49	$ 0.50
Per Share - Diluted	**$ (11.09)**	$ (1.04)	$ 0.19	$ (0.40)	$ (5.93)	$ 0.23	$ 0.48	$ 0.49
Net earnings from discontinued operations	**$ (1.5)**	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.5	$ 0.4	$ 0.4
Per Share - Basic	**$ (0.11)**	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02
Per Share - Diluted	**$ (0.11)**	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02
Net earnings (loss)	**$ (218.3)**	$ (20.9)	$ 3.3	$ (8.4)	$ (118.9)	$ 4.3	$ 9.3	$ 9.2
Per Share - Basic	**$ (11.09)**	$ (1.06)	$ 0.17	$ (0.42)	$ (5.95)	$ 0.22	$ 0.47	$ 0.47
Per Share - Diluted	**$ (11.09)**	$ (1.06)	$ 0.17	$ (0.42)	$ (5.95)	$ 0.21	$ 0.46	$ 0.47
Funds from operations	**$ 0.2**	$ 10.0	$ 10.2	$ 10.2	$ 5.0	$ 8.1	$ 10.0	$ 12.3
Per Share - Basic	**$ 0.01**	$ 0.50	$ 0.52	$ 0.51	$ 0.25	$ 0.41	$ 0.50	$ 0.64
Per Share - Diluted	**$ 0.01**	$ 0.50	$ 0.50	$ 0.51	$ 0.25	$ 0.40	$ 0.49	$ 0.62
Total assets	**$ 3,367**	$ 3,802	$ 3,875	$ 3,957	$ 4,025	$ 3,736	$ 3,829	$ 3,802
Total long term financial liabilities	**$ 2,642**	$ 2,793	$ 2,848	$ 2,892	$ 2,982	$ 2,616	$ 2,723	$ 2,641
Dividend declared per share	**$ NIL**	$ NIL	$ NIL	$ NIL	$ NIL	$ 2.25	$ NIL	$ 2.25

Fourth Quarter Result

NOI was $46.4 million in Q4 2009, $5.0 million lower than the $51.4 million recorded in Q3 2009. Though property revenue increased by $3.8 million, this was mainly as a result of the $5.6 million bad debt expense relating to Quelle, a former tenant in Germany, as described earlier. The average Canadian dollar foreign exchange rate for the Euro was almost unchanged in Q4 2009 versus Q3 2009, and therefore did not significantly impact the results.

The Company incurred a loss before taxes from continued operations for the fourth quarter of 2009 of $246.4 million ($12.51 per share), compared to net loss before taxes from continued operations of $124.6 million in the same period in 2008 ($6.24 per share), a variance of $121.8 million. The increase relates primarily to the following:

- The Company determined that certain of its investment properties were impaired. This resulted from weakening real estate prices and uncertainty as to the Company's ability to obtain replacement financing for certain properties where either the related debt is in default of its covenants, or financing is due in 2010 and is unlikely to be refinanced based on the property's current loan to value ratio. Where the fair value was determined to be below the carrying value, the carrying value was considered to be not recoverable, which resulted in an impairment charge of $182.0 million being recorded in Q4 2009 ($nil in Q4 2008).
- An impairment loss on development properties of $43.6 million in Q4 2009 ($nil in Q4 2008) as described earlier.
- The Company realized an $18.9 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q4 2009, compared to a $2.1 million gross profit in Q4 2008, a variance of $21.0 million. The Q4 2009 loss resulted primarily from unexpected budget adjustments related to the Homburg-Harris Centre.
- A fair value gain on investments of $0.8 million in Q4 2009, compared to a loss of $11.0 million in Q4 2008, a variance of $11.8 million, resulting from changes in the market prices on the Company's quoted investments.
- A foreign exchange gain of $8.0 million was recorded in Q4 2009, compared to a loss of $25.1 million in Q4 2008. The gain in Q4 2009 mainly resulted from a 2.4% strengthening of the Canadian dollar compared to the Euro, from $1.62:€1 at September 30, 2009 to $1.58:€1 at December 31, 2009, which decreased the value of the Company's €100 million of unhedged debt by $4.7 million. Similarly, the strengthening of the Canadian dollar compared to the US dollar decreased the value of the Company's unhedged US$25 million debt by approximately $1.9 million.
- A goodwill write-off in Q4 2008 of $63.5 million compared to $NIL in 2009.

Prior Quarter Results
NOI was $51.4 million in Q3 2009, slightly lower than the $54.6 million recorded in Q2 2009. The variance primarily relates to a decrease in the occupancy rate in the Industrial portfolio due to two properties in the Netherlands being vacated by the tenants. The average foreign exchange rate for the Euro was slightly lower in Q3 2009 compared to Q2 2009, which also contributed towards the decrease in NOI. The average Canadian dollar foreign exchange rate for the Euro was 0.76% lower and the US dollar rate was 3% lower in Q3 2009 compared to Q2 2009.

The Company incurred a loss before taxes from continued operations for the third quarter of 2009 of $30.1 million (loss before taxes of $1.54 per share), compared to net earnings before taxes of $6.8 million in the same period in 2008 (net earnings before taxes of $0.34 per share), a variance of $36.9 million. The significant change relates primarily to the following:

- The Company realized an $18.8 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q3 2009, compared to a $10.2 million gross profit in Q3 2008, a variance of $29.0 million. The Q3 2009 loss resulted primarily from budget adjustments related to unexpected increased costs on the Homburg-Harris Centre as the project neared completion. This project continues to be accounted for on the percentage of completion method during completion of construction for the buyer. The Company also recorded a gross loss in Q3 2009 resulting from the sale of condominium units at low market prices.
- A loss on derivative instruments of $3.3 million (negligible loss in Q3 2008) resulting from recovering interest rates.
- An impairment loss on development properties of $5.5 million in Q3 2009 ($nil in Q3 2008) due to a change in market conditions that impacted forecasted cash flows on the Company's condominium developments.
- A lower fair value loss on investments of $1.1 million in Q3 2009, compared to a loss of $5.0 million in Q3 2008, a variance of $3.9 million, resulting from changes in the market prices on the Company's quoted investments.
- A foreign exchange gain of $5.4 million was recorded in Q3 2009, compared to a gain of $6.4 million in Q2 2008. The gain in Q3 2009 mainly resulted from a 2.4% strengthening of the Canadian dollar compared to the Euro, from $1.62:€1 at June 30, 2009 to $1.58:€1 at September 30, 2009, which decreased the value of the Company's €100 million of unhedged debt by $4.9 million.

NOI was $54.6 million in Q2 2009, slightly lower than the $54.9 million recorded in the prior quarter, reflecting the relative stability of the Company's tenant base and occupancy levels during these periods. Average foreign exchange rates for the second quarter of 2009 were slightly lower than the previous quarter which primarily contributed towards the slight decrease in NOI. The average Canadian dollar foreign exchange rate for the Euro was 1.1% lower and the US dollar rate was 3% lower in Q2 2009 compared to Q1 2009 respectively.

The Company recorded a loss before tax for the second quarter of 2009 of $1.8 million (loss of $0.11 per share) compared to earnings before tax of $7.8 million in the second quarter of 2008 (earnings of $0.39 per share), a decrease of $9.6 million. The most significant changes relate to the following:

- The Company realized a $7.3 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of development properties in Q2 2009, compared to a $16.7 million gross profit in Q2 2008, a variance of $24.0 million, mainly resulting from budget adjustments on the Homburg-Harris Centre, as well as the sale of condominium units at low market prices.
- A fair value gain on investment of $2.3 million in Q2 2009, compared to a loss of $2.5 million in Q2 2008, a variance of $4.8 million, resulting from recovering market prices on the Company's quoted investments.
- A foreign exchange gain of $3.6 million in Q2 2009 (negligible gain in Q2 2008) mainly resulting from a 1.6% strengthening of the Canadian dollar compared to the Euro, from $1.65:€1 at March 31, 2009 to $1.62:€1 at June 30, 2009, which decreased the value of the Company's €125 million of unhedged debt by $3.3 million.
- A gain on derivative instruments of $3.9 million (negligible loss in Q2 2008) resulting from recovering interest rates.

The Company incurred a net loss for the first quarter of 2009 of $8.4 million (loss of $0.42 per share), compared to net earnings of $9.2 million in the same period in 2008 (earnings of $0.47 per share), a variance of $17.6 million. The most significant variance was gross profit on the sale of development properties (calculated as revenues less cost of sales on properties developed for resale) which was approximately $19 million lower in Q1 2009 compared to Q1 2008, predominately due to lower activity on the construction of the Homburg-Harris Centre in Calgary, Alberta. This development was sold in the fourth quarter of 2007 when the project was approximately 50% complete, resulting in significant revenue being recognized during that period. Subsequently, revenue continues to be recognized on the percentage of completion basis throughout 2009. In addition, in Q1 2008, the Company sold an office development in Calgary, Alberta, for approximately $34 million and a gain of $2.4 million, which did not recur in Q1 2009. The Company also recorded a foreign exchange gain of approximately $7.2 million in Q1 2009 (Q1 2008 - loss of $1.0 million) due to a strengthening of the Canadian dollar against the Euro which decreased the Canadian dollar equivalent of unhedged Euro denominated debt by approximately $8 million. Also during the first quarter of 2009, as a result of low interest rates on variable rate debt, the Company recorded a loss of $8.7 million (2008 - $0.9 million loss) on derivative instruments. NOI was slightly lower in Q1 2009 compared to Q4 2008 by 2.7%.

NOI was relatively stable in Q2, Q3 and Q4 of 2008; although it was unfavourably impacted from a slight weakening of the Euro exchange rate compared to the Canadian dollar, which stood at $1.51 in Q2 2007, $1.49 in Q3 2007 and $1.47 in Q4 2007. The increase in NOI in the fourth quarter of 2007 related to the CN Central Station, the SEB portfolio in the Baltic States, and the Cedar Shopping Center portfolio in the US, which impacted results for a portion of that three month period. These acquisitions mainly contributed towards the increase of $12.3 million in NOI from $42.5 million in Q4 2007 to $54.8 million in Q1 2008, as well as a slight strengthening of the Euro from $1.47 to $1.50 during that period.

Earnings before taxes were relatively stable in Q2 2008 and Q3 2008. The Company incurred a net loss for the fourth quarter of 2008 of $118.9 million (loss of $5.95 per share), mainly related to a goodwill write-off of $63 million, a loss on derivatives of approximately $18 million, a foreign exchange loss of approximately $25 million, and a loss on fair value changes in investments of $11 million, all primarily due to changes in foreign exchange rates, interest rates, and market prices of investments and the loss of portfolio premiums as the global economic crisis unfolded in late 2008.

RESULTS OF OPERATIONS

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.

Geographical Segments (in millions unless otherwise stated)	Germany	Netherlands	The Baltics	Canada	US	Total
Year ended December 31, 2009						
Property revenue	**$ 86.9**	**$ 41.9**	**$ 21.8**	**$ 138.7**	**$ 18.4**	**$ 307.7**
Operating expenses	**10.3**	**6.3**	**6.6**	**71.2**	**5.9**	**100.3**
Net operating income	**$ 76.6**	**$ 35.6**	**$ 15.2**	**$ 67.5**	**$ 12.5**	**$ 207.4**
Occupancy rate at Dec 31, 2009	***55.2%***	***78.3%***	***88.1%***	***95.3%***	***94.6%***	
Year ended December 31, 2008						
Property revenue	$ 81.5	$ 42.6	$ 20.3	$ 136.9	$ 18.0	$ 299.3
Operating expenses	1.2	5.6	5.1	65.3	4.9	82.1
Net operating income	$ 80.3	$ 37.0	$ 15.2	$ 71.6	$ 13.1	$ 217.2
Occupancy rate at Dec 31, 2008	*100.0%*	*99.6%*	*88.9%*	*95.5%*	*95.8%*	
Three months ended December 31, 2009						
Property revenue	**$ 20.6**	**$ 12.1**	**$ 4.9**	**$ 35.5**	**$ 4.2**	**$ 77.3**
Operating expenses	**6.8**	**2.0**	**1.7**	**18.8**	**1.5**	**30.8**
Net operating income	**$ 13.8**	**$ 10.1**	**$ 3.2**	**$ 16.7**	**$ 2.7**	**$ 46.5**
Three months ended December 31, 2008						
Property revenue	$ 21.6	$ 10.7	$ 6.2	$ 35.8	$ 5.8	$ 80.1
Operating expenses	0.3	2.0	1.4	16.8	1.5	22.0
Net operating income	$ 21.3	$ 8.7	$ 4.8	$ 19.0	$ 4.3	$ 58.1

Total property revenue was $307.7 million in 2009, compared to $299.3 million in 2008, a slight increase of 2.8%. The Germany and the Baltic States segments increased mainly due to the average Euro foreign exchange rate compared to the Canadian dollar being marginally higher in all four quarters of 2009 compared to 2008. Property revenue in the Netherlands decreased slightly relating to two properties being vacant for the majority of 2009, offset by a full year of revenue relating to another two properties acquired at the end of 2008. Property revenue from the Canada segment increased slightly to $138.7 million, representing a 1.3% increase from $136.9 million in 2008. This is reflective of the stable base of investment properties, tenants, leasing and occupancy rates during these periods. Property revenue from the US segment was relatively unchanged at $18.4 million compared to $18.0 million in 2008.

Property operating expenses increased in all segments in 2009 compared to 2008 from $82.1 million 2008 to $100.3 million in 2009 for an increase of $18.2 million. The most significant increase related to a bad debt expense of $5.6 million related to Quelle, as previously discussed.

NOI decreased by 4.5% in 2009 compared to 2008. This is reflective of the relative stability of property revenues, property operating expenses and average Euro and US dollar foreign exchange rates during these periods, offset by a bad debt expense relating to Germany of $5.6 million related to a former tenant, Quelle, as described earlier. Overall occupancy in the Germany segment decreased from 100.0% in 2008 to 55.2% in 2009 due to this former tenant vacating the property on December 31, 2009, which accounts for approximately 2.4 million square feet in the Germany segment.

Overall occupancy in The Netherlands segment portfolio was 78.3% at December 31, 2009 compared to 99.6% at December 31, 2008. The increased vacancy is due to two industrial properties which were vacated by the tenants. The company is currently looking at re-leasing these properties.

Total property revenue was $77.3 million in the fourth quarter of 2009, compared to $80.2 in the fourth quarter of 2008, a decrease of $3.6%.

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

Property Type Segments (in millions unless otherwise stated)	Retail	Industrial	Office	Residential	Total
Year ended December 31, 2009					
Property revenue	**$ 84.9**	**$ 34.8**	**$ 179.1**	**$ 8.9**	**$ 307.7**
Operating expenses	**36.8**	**9.8**	**46.9**	**6.8**	**100.3**
Net operating income	**$ 48.1**	**$ 25.0**	**$ 132.2**	**$ 2.1**	**$ 207.4**
Occupancy rate at December 31, 2009	**96.6%**	**51.1%**	**94.9%**	**97.5%**	
Year ended December 31, 2008					
Property revenue	$ 88.4	$ 39.7	$ 162.8	$ 8.4	$ 299.3
Operating expenses	37.6	3.2	35.8	5.5	82.1
Net operating income	$ 50.8	$ 36.5	$ 127.0	$ 2.9	$ 217.2
Occupancy rate at December 31, 2008	96.9%	99.1%	95.3%	96.9%	
Three months ended December 31, 2009					
Property revenue	**$ 18.4**	**$ 9.1**	**$ 47.0**	**$ 2.6**	**$ 77.1**
Operating expenses	**6.9**	**7.3**	**14.6**	**1.9**	**30.7**
Net operating income	**$ 11.5**	**$ 1.8**	**$ 32.4**	**$ 0.7**	**$ 46.4**
Three months ended December 31, 2008					
Property revenue	$ 21.6	$ 9.4	$ 40.9	$ 1.8	$ 73.7
Operating expenses	11.3	0.7	8.2	0.6	20.8
Net operating income	$ 10.3	$ 8.7	$ 32.7	$ 1.2	$ 52.9

The decrease in the overall occupancy in the industrial portfolio from 99.1% in 2008 to 51.1% in 2009 was due to a property in Germany being vacated by the tenant, Quelle GmbH, on December 31, 2009 which accounts for approximately 2.4 million square feet in the industrial portfolio. In addition, two properties in the Netherlands were vacated by tenants, as described earlier.

The retail portfolio consists of 82 (December 31, 2008 - 87) retail properties, including the Confederation Court Mall in Charlottetown, PEI, Place Alexis Nihon in Montreal, Quebec, and three big box Zellers locations across Canada, having total rentable square footage of 5.8 million square feet. The retail rental revenue and net operating income for the fourth quarter on the properties held on December 31, 2009 have decreased 14.8% and 11.7% respectively over the same period in 2008 due primarily to the disposal of 5 retail properties during this period. Overall occupancy in the retail portfolio was 96.6% at December 31, 2009 (96.9% - December 31, 2008).

The industrial portfolio consists of 38 (December 31, 2008 - 38) industrial buildings located in Canada, the US and Europe with a total area of 6.4 million square feet. The Company's industrial buildings generated $9.1 million total rental revenue in the fourth quarter of 2009 and $1.8 million in net operating income compared to $9.4 million total rental revenue in the fourth quarter of 2008 and $8.7 million in net operating income, related to the decrease in overall occupancy in the industrial portfolio to 51.1% at December 31, 2009 (99.1% - December 31, 2008) and a related bad debt expense of $5.6 million as noted earlier.

The office portfolio consists of 101 (December 31, 2008 - 101) small to medium sized office buildings in Canada, the United States and Europe, with a total area of 6.9 million square feet. (December 31, 2008 - 6.9 million square feet). Fourth-quarter property revenue was $47.0 million compared to $40.9 million in the same period of 2008 while net operating income was $32.4 million versus $32.7 million in 2008. Overall occupancy in the office portfolio was 94.9% at December 31, 2009 (95.3% - December 31, 2008).

The residential portfolio is primarily located in Nova Scotia, New Brunswick and Quebec, Canada, and consists of 12 (December 31, 2008 - 12) properties with 762 (December 31, 2008 - 762) units as at December 31, 2009. The increase in fourth-quarter property revenue from $1.8 million in 2008 to $2.6 million in 2009 is related to the high overall average occupancy rate in the residential portfolio during 2009. At December 31, 2009 the occupancy rate was 97.5% compared to 96.9% at December 31, 2008. Net operating income decreased from $1.2 million in 2008 to $0.7 million in 2009 due to an increase in operating expenses of $1.3 million.

Properties Developed for Resale

The Company continued to realize upon its development pipeline in 2008 with sales in Grande Prairie, Calgary, Edmonton, Alberta and Charlottetown, Prince Edward Island. Revenue decreased by approximately $37.8 million from $229.1 million in 2007 to $191.3 million in 2008. Revenue from the sale of the Homburg-Harris Centre in Calgary, Alberta was approximately $72 million lower in 2008 compared to 2007, predominately from the sale of this development in the fourth quarter of 2007 during the construction phase of tower one. This decrease was offset by revenue from the sale of an office development in Calgary, Alberta, of approximately $34 million in 2008. Revenue from the sale of condominium units was flat in 2008 compared to 2007.

Revenue from the sale of properties developed for resale decreased by $127.4 million from $191.3 million in 2008 to $63.9 million in 2009. Revenue from the sale of the Homburg-Harris Centre in Calgary, Alberta decreased by $75 million due to a lower level of development activity as the project neared completion in December 2009. Revenue from the sale of condominium units was $19 million lower in 2009 compared to 2008, reflecting a softening of real estate prices and slower activity in the Canadian market following the global economic downturn in late 2008. There were no office developments for resale in 2009, resulting in a decrease of $34 million in revenue compared to 2008. Gross loss from the sale of development properties for resale was $43.9 million in 2009, compared to a gross profit of $48.4 million in 2008. The reduction relates to budget adjustments resulting from additional costs incurred on the completion of tower two of the Homburg-Harris Centre in 2009, as well as lower prices obtained from the selling of condominium units which is reflective of current market conditions.

BALANCE SHEET HIGHLIGHTS

Total assets decreased from $4,013.5 million at December 31, 2008 to $3,366.7 million at December 31, 2009. The table below summarizes the Company's assets:

	December 31 2009	December 31 2008
	(Millions)	*(Millions)* *(Restated)*
Investment properties	**$ 2,714.6**	$ 3,207.5
Development properties	**344.8**	360.5
Receivables and other	**101.6**	133.0
Intangible assets	**66.3**	109.8
Long term investments	**24.2**	40.1
Restricted cash	**23.2**	25.8
Cash	**32.6**	16.4
Currency guarantee receivable		23.6
Assets of discontinued operations	**59.4**	96.7
	$ 3,366.7	$ 4,013.4

Investment Properties
Investment properties decreased by $492.9 million from $3,207.5 million at December 31, 2008 to $2,714.6 million. At December 31, 2009, the Company determined that certain of its investment properties were impaired as a result of uncertainty as to the Company's ability to obtain replacement financing for certain properties where either the related debt is in default of its covenants, or financing is due in 2010 and is unlikely to be refinanced based on the property's current loan to value ratio. Where the fair value was determined to be below the carrying value, the carrying value was considered to be not recoverable, which resulted in an impairment charge of $182.0 million being recorded. The balance was reduced further by depreciation and amortization expense of $65.1 million as well as the impact of foreign currency translation adjustments on overseas assets which was significant due to the difference between the Canadian dollar and Euro foreign exchange rate of $1.50:€1 at December 31, 2009 compared to $1.72:€1 at December 31, 2008, a decrease of approximately 12.8%.

Development Properties
Development properties decreased primarily due to an impairment charge of $49.1 million, offset by the continued capitalization of costs associated with the Company's various condominium development projects located in Canada.

The Company's construction properties being developed for resale include condominium developments that have yet to fully realize their cash flow from sales of units. During 2009, market conditions have changed to a degree that the previously forecasted cash flows from the sale of these units is no longer expected to be attainable, indicating a potential impairment to these assets. At December 31, 2009, the carrying value of these assets exceeded their net realizable value, based on estimated cash flows from the sales prices for future committed and forecasted sales, less estimated selling costs. In addition, the carrying value of certain development projects was determined to be impaired, based on the estimated fair values of the assets as compared to their carrying values. The estimated impairment was determined as follows: carrying value of the assets $229.4; net realizable value / fair value $180.3; impairment loss recognized $49.1.

Intangible Assets/Liabilities
Intangible assets relate to above market leases, in-place leases, lease origination costs and tenant relationships acquired as a result of business combinations. There were no additions to intangible assets in 2008 or 2009. The reduction relates to amortization of previous amounts capitalized, as well as a decrease relating to Euro denominated amounts due to the significant decrease in the Euro exchange rate at December 31, 2009 compared to 2008, as described earlier.

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.

Long Term Investments
The long term investments totaled $24.2 million at December 31, 2009 compared to $40.1 million at December 31, 2008. The difference mainly relates to fair value adjustments with respect to the Company's investments in other publicly listed real estate enterprises. Additionally, during Q1 2009 the Company sold its investment in DIM Vastgoed N.V. ("DIM") consisting of deposit receipts representing 971,462 shares of DIM and recorded a gain on sale of $0.2 million. The Company's investments include:

- Cedar Shopping Centers, Inc., a New York Stock Exchange listed REIT and represents approximately 0.1% (December 31, 2008 - 0.1%) of the outstanding shares. Mr. Homburg is a Director of Cedar Shopping Centers, Inc.
- A 10% interest in DEGI Homburg Harris Limited Partnership, which owns an office complex in Calgary.
- A 20% interest in Homburg Eastern European Fund B.V., which is a developer of investment properties.
- DIM Vastgoed N.V. ("DIM"), a NYSE Euronext Amsterdam listed company with properties in the southeastern United States. The Company currently holds 766,573 shares of DIM which will be converted to 536,601 Equity One shares (NYSE:EQY) in 2010.

Capital Structure
The table below summarizes the Company's capital structure.

		December 31, 2009			December 31, 2008	
		(Millions)			*(Millions)*	
Long term debt	**$**	**2,641.7**	**84.3 %**	$	2,916.7	80.2 %
Construction financing		**95.0**	**3.0 %**		102.4	2.8 %
Long term payables		**11.7**	**0.4 %**		13.4	0.4 %
Homburg Capital Securities A		**3.9**	**0.1 %**		-	-
Due to DIM shareholders		**3.0**	**0.1 %**		4.4	0.1 %
Non-construction demand loans		**74.3**	**2.4 %**		90.6	2.5 %
Notes payable		**3.0**	**0.1 %**		0.2	- %
	$	**2,832.6**	**90.4 %**	$	3,127.7	86.0 %
Shareholders' equity *(2008 restated)*		**301.6**	**9.6 %**		509.1	14.0 %
	$	**3,134.2**	**100.0 %**	$	3,636.8	100.0 %

Long Term Debt
Mortgages payable on income producing properties decreased by $180.4 million during 2009. New borrowings and debt assumptions amounted to $64.7 million while $163.5 million was applied to the mortgage debt as required under normal principal payments, dispositions and refinancing. The remaining $81.6 million relates to the impact of changes in foreign exchange rates on Euro and US dollar denominated debt.

Mortgage bonds payable decreased by $33.1 million during 2009, primarily as a result of the impact of changes in foreign exchange rates on this Euro denominated debt. The Company has entered into guarantee arrangements on all series of its mortgage bonds, with a company under the control of the Chairman and Chief Executive Officer. Under the terms of the guarantee, the Company is protected from devaluation of the Canadian dollar against the Euro, to a maximum limit equal to the face value of each mortgage bond, and has relinquished any appreciation rights which may arise on the future settlement of its Euro denominated Mortgage Bonds. The Mortgage Bonds are recorded at the prevailing exchange rate at December 31. Included within the consolidated balance sheet is a liability of $5,036 (December 31, 2008 - $23,594 asset, as restated) reflecting a decrease in the principal amount of the mortgage bonds (resulting from a change in the value of the Canadian dollar versus the Euro) since the bonds were issued. As a result of the guarantee, there is no earnings impact related to changes in currency value of the bonds.

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. Due to the change in the value of the Euro compared to the Canadian dollar, the non-asset backed bonds decreased by $56.4 million in 2009.

The junior subordinated notes require interest only payments until maturity in 2036. The notes, which consist of EUR €25.0 million and USD $20.0 million, have a fixed interest rate until 2016 and variable thereafter until maturity. The Company has a redemption option effective in 2011 until maturity, and the outstanding balances are translated at period end exchange rates. The notes have a financial covenant which requires the Company to maintain a certain minimum rolling four-quarter interest coverage ratio, as calculated using the Company's IFRS financial information. The junior subordinated notes decreased by $9.0 million in 2009 due to a change in the Euro and US dollar exchange rates compared to the Canadian dollar.

Construction Financing
At December 31, 2009, the Company had $95.0 million in construction financing (December 31, 2008 - $102.4 million) relating to development projects outlined earlier.

Non-construction demand loans
Non-construction demand loans decreased to $74.3 million at December 31, 2009 compared to $90.6 million at December 31, 2008.

Shareholders' Equity
Shareholders' equity decreased from $509.1 million at December 31, 2008 to $301.6 million at December 31, 2009. In 2009, 172.9 thousand shares (2008 - 52 thousand shares) were repurchased and cancelled under the Company's Normal Course Issuer Bid for an average cost of $7.79 (2008 - $14.76) per share. In addition, the Company successfully raised $32.0 million (equity component), net of deferred transaction costs, through its Homburg Capital Securities A issued in 2009. The net loss for the year ended December 31, 2009 amounted to $247.7 million; accumulated other comprehensive loss decreased by $10.8 million due to changes in foreign currency rates; and contributed surplus increased $5.6 million primarily related to the repurchase and cancellation of shares at prices below the average issue price for the shares.

The Company's US operations, headquartered in Colorado Springs, Colorado and the European operations headquartered in Soest, The Netherlands, 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 accumulated other comprehensive income (loss) within shareholders' equity. At December 31, 2009, the accumulated loss amount was $13.3 million; a decrease of $10.7 million from the accumulated loss amount of $24.0 million as at December 31, 2008.

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 the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining the same level of financing when seeking to renew existing debt and obtain new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. 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 ratios and interest coverage ratios, and/or reserve account balance requirements. Breach of any of these covenants could result in the related debt being required to be repaid before its scheduled maturity date. Should that happen, the Company may be required to sell properties at unfavourable prices to satisfy the debt repayment, and the Company's financial condition and results of operations could be adversely affected. The majority of the Company's real estate assets and related mortgage debts are currently held through limited partnership structures. These structures generally limit the recourse of the lender to the specific assets held in or below the limited partnership, and therefore a breach of covenant does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs. The recourse of the lender to the Company's mortgage bonds and unsecured debt is generally unrestricted.

The Company has been negatively impacted by global economic and capital market conditions which have resulted in tightened lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company is significantly levered with a debt to equity ratio of 9.20:1 at December 31, 2009 (December 31, 2008 - 6.14:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the year ended December 31, 2009, Homburg Invest had total interest expense coverage from continuing operations of 0.93:1 (December 31, 2008 - 1.52:1) (calculated as total revenue less unrealized fair value gains, foreign exchange gains, property operating expenses, cost of property sales and general and administrative expenses ÷ interest expense (excluding capitalized interest)). In response to the changes in global capital markets, on December 16, 2009, the Company announced that the Board of Directors authorized a major reorganization of the Company's real estate assets. As the initial step in the reorganization, the Company continues to progress towards the creation of the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold the Company’s eligible Canadian income producing real estate properties and related mortgage debt. It is expected that a preliminary prospectus for the initial public offering ("IPO") will be filed and that the Homburg Canada REIT will become a publicly traded REIT in the first half of 2010. The timing of the Homburg Canada REIT IPO transaction and the impact on the Company's liquidity is subject to uncertainty, however, if successful, cash proceeds from the IPO will be utilized to reduce debt and satisfy other obligations. The following table presents the Company's contractual obligations at December 31, 2009:

(In Millions)	Payments Due by Period					
Contractual Obligations	**2010**	**2011**	**2012**	**2013**	**2014**	**Later**
Operating leases (i)	$ 6.9	$ 14.4	$ 14.5	$ 14.7	$ 14.7	$ 194.6
Mortgages: Normal principal installments (i)	30.0	35.5	37.0	32.0	21.1	
Interest (i)	97.6	94.0	85.5	98.9	58.6	
Principal maturities (ii)	50.4	82.7	60.2	197.9	101.9	851.6
Bonds and junior subordinated notes:						
Interest (i)	54.3	53.0	45.2	37.6	21.1	
Principal maturities (iii)	36.1	60.2	93.9	165.5	150.4	150.4
Non construction demand loans (iv)	74.3					
Construction financing (v)	95.0					
Construction purchase obligations (v)	2.5					
Other current and long term payables (vi)	6.9		11.7			
Working capital deficit (vii)	68.3					
	522.3	**339.8**	**348.0**	**546.6**	**367.8**	**1,196.6**
Mortgage principals: covenant violations (ix)	449.3					
Junior subordinated notes: likely covenant breach (viii)	58.6					
	$ 1,030.2	**$ 339.9**	**$ 348.1**	**$ 546.6**	**$ 367.9**	**$ 1,196.6**

The Company's derivative instrument liability ($24.0 million) has been excluded from the above table as the liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which are settled with the derivative instrument on a net basis; accordingly, interest obligations on such mortgages are shown at the effective fixed rate, which approximates the timing of the related cash flows.

(i) The Company requires liquidity to meet the following obligations which ordinarily fall due in the next twelve months: mortgage principal installments of $30.0 million; interest on mortgages and mortgage bonds of $97.6 million; interest on corporate non asset backed bonds and junior subordinated notes of $54.3 million; capital spending requirements on the income property portfolio, expected to approximate $8.0 million; and operating lease commitments of $6.9 million. Sources of finance towards these obligations include: cash on hand of $32.6 million; net cash flow from operating activities before interest expense unrelated to development activities; the unutilized non-construction demand loans of $15.0 million with a company controlled by the Chairman and Chief Executive Officer; cash generated from continued sales of completed condominium development projects; the potential sale of certain income producing properties, subject to reasonable prices being attained; and the potential upward refinancing on certain mortgages.

(ii) Mortgage principal maturities falling due in 2010 total $50.4 million, of which $15.4 million has been repaid subsequent to year end and $11.3 million is expected to be renewed at terms similar to those currently in place. The remaining $23.7 million relates to a property in the Netherlands which is currently unoccupied. According to the specific loan agreement, the lender has recourse only to the borrowing entity's specific property and certain other assets of the borrowing entity securing this specific loan. As a result of potential refinancing difficulties, an impairment charge of $8.1 million was recorded in 2009 to adjust the property's carried value to its fair value of $26.5 million.

(iii) Subsequent to year end, the Company sold 6 properties for gross proceeds of approximately $46.4 million. EUR €18.0 million of the net proceeds was paid towards the partial redemption of Homburg Mortgage Bond 2 (principal maturity of $36.1 million at December 31, 2009). The remaining balance of EUR €6.0 million will be repaid in April 2010, from committed financing on two other properties.

(iv) The Company's non construction demand loans of $74.3 million are secured by first or second charges over various investment properties not to exceed 65% of fair value. Included in the demand loans is a credit facility of $45.0 million which is expected to be repaid using proceeds following the Homburg Canada REIT IPO. The Company anticipates that the other demand loans will remain in place based on current loan to property security values.

(v) The Company has $344.8 million invested in development properties that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling $95.0 million at December 31, 2009. The Company expects to finance construction properties currently under development, including interest on principal borrowings, through existing and additional construction loans. Secured first mortgage financing on completed construction projects will be replaced with conventional first mortgages, or repaid where the debt is secured by a charge over properties being sold. Purchase obligations relate to construction projects underway to which the Company has commitments of $2.5 million. These commitments will be funded from existing cash resources and further construction financing. The Company's reduced liquidity raises uncertainty with respect to the future development of certain land holdings and development projects. As a result, where the current fair value is below the carrying value, an impairment charge has been recorded. There is a risk that further delays in development projects could result in additional costs that may not ultimately be recoverable, and the potential for further impairment charges.

(vi) Other obligations falling due within 12 months include Homburg Capital Securities A ("HSCA") ($3.9 million) and DIM Vastgoed N.V. ($2.9 million), totaling $6.9 million.

(vii) The working capital deficit of ($68.3 million) consists of trade receivables ($35.3 million), related party receivables ($10.2 million) and notes receivable ($1.6 million), less trade payables ($93.5 million), related party payables ($5.1 million), income taxes payable ($13.8 million) and notes payable ($3.0 million), and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.

(viii) The Company's junior subordinated notes, with a principal balance of $58.6 million, were in default of an interest coverage ratio covenant during 2009, however a waiver from the lender was obtained until April 30, 2010. It appears unlikely that the covenants will be in compliance at April 30, 2010, therefore the Company is seeking to obtain an additional waiver from the lender; however, this has not yet been obtained. Accordingly, these principal maturities have been classified as falling due within 2010. In absence of the covenant breach, the principal maturity is due in 2036.

(ix) Mortgage principal maturities include loans of $449.3 million which were in default of lending covenants at December 31, 2009. Accordingly, these loans are classified as falling due within 2010. Included is a loan of $154.4 million which relates to a specific property in Germany that was vacated by the tenant, Quelle GmbH, on December 31, 2009. According to the loan agreement, the lender has recourse only to the assets of the limited partnership and entities under it which secured the specific loan, and not to the Company as a whole. The lender has not taken action to foreclose on its security at December 31, 2009, and therefore the borrowing entities continue to be consolidated by the Company and the mortgage continues to be recorded at amortized cost. At December 31, 2009, the specific property was recorded at its fair value of $18.8 million, after an impairment charge of $157.4 million. As a result of the default, the lender may foreclose on its security and the Company may lose control of the assets to the lender. Should this occur, a gain would be realized to the extent of the difference between the maximum amount of the debt of $154.4 million and the limited amount of recourse the lender is able to recover.

Also included is a loan of $198.5 million ordinarily due in 2017 relating to the Company's portfolio of properties in the Baltic States which was in breach of an interest coverage ratio covenant at December 31, 2009. The Company obtained a waiver until April 30, 2010 to rectify the breach and is working with the lender to rectify the situation.

Additionally, there are two separate loans with a lender, of which $54.8 million is ordinarily due in 2014 and $41.6 million is ordinarily due in 2015 that were in breach of maximum loan to value covenants. The loans relate to two separate properties in The Netherlands. According to these loan agreements, the lender has recourse only to certain assets of the specific entities securing the specific loans, and not to the Company as a whole. The Company is working with the lender to rectify the situation.

Should the above efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell properties at unfavourable prices to meet its immediate liquidity needs, and as a result the financial condition and results of operations could be adversely affected. The Company has been successful in the past in raising non asset backed debt financing and mortgage bond financing on the global market to the extent of $700.0 million. The Company will continue to look to these unique financing markets for additional funds; however, there can be no assurance that additional funds will be available.

Interest rate risk
As a result of the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing.

The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of $2,327.2 million in fixed rate debt and $501.4 million in floating rate debt (before deferred financing charges and the currency guarantee payable) including $169.3 million in demand and short term loans which are repayable in less than one year. The Company has minimized its interest rate risk through a liability management policy. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €159.9 million ($240.5 million) (December 31, 2008 - EUR €161.2 million ($277.8 million)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltic States during the year ended December 31, 2009, the impact on the consolidated statement of earnings was a loss of $7.5 million (December 31, 2008 - loss of $18.5 million). The Company discloses the weighted average interest rate of maturing long term debt in Note 14 of the 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 $3.6 million in the Company's earnings as a result of the impact on floating rate borrowings.

Credit risk
The Company's principal assets are commercial and residential properties. Credit risk on tenant receivables of $20.1 million (December 31, 2008 - $14.1 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 19% 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 ($112.8 million) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company sought 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 Company has not experienced significant receivable write-offs, other than in respect of its former tenant, Quelle GmbH for which $5.6 million was charged to property operating expenses in 2009. Otherwise, there has been no significant change in the bad debt provision during the period. 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 mitigates a portion of its currency risk on mortgage bonds denominated in Euros through a guarantee agreement. In support of the currency guarantee the related party has arranged an arms length credit facility agreement. The Company has also established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. At December 31, 2009, EUR €25.0 ($37.6) (December 31, 2008 - €234.3 ($404.0 million)) of the Company's net investment was hedged with an equal amount of Euro-denominated debt. The hedge is considered to be an effective hedge at December 31, 2009 and December 31, 2008, and will be regularly reviewed to assess the continued effectiveness of the hedging relationship. 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 $1.6 million and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of $10.3 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 $nil million and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of $1.4 million after income taxes.

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

Concentration risk
Certain of the Company's larger investment properties are leased to single tenants, and the recovery of the carried value of these investments is dependent upon the continuation of rental income on these properties from existing or new tenants. The Company's largest single tenant represented approximately 19% (December 31, 2008 - 17%) 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 had a carrying value of $584.0 million at December 31, 2009. The Company also follows a policy of maintaining its properties to a quality standard that would support timely re-leasing to new tenants.

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.

FINANCIAL INSTRUMENTS

The Company does not acquire, hold or issue derivative financial instruments for trading purposes, and the Company has no off-balance sheet arrangements. The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

Classification	Subsequent Measurement	**Carrying Value 2009** *(Millions)*	**Fair Value 2009** *(Millions)*	Carrying Value 2008 *(Millions)*	Fair Value 2008 *(Millions)*
Available for Sale					
Long term investments: DEGI L.P. (a)	Cost	**$ 9.3**	Note (a)	$ 10.6	Note (a)
Held for Trading					
Long term investments: others (b)	Fair value (L1)	**$ 6.3**	**$ 6.3**	$ 19.2	$ 19.2
Long term investments: HEEF B.V. (b)	Fair value (L3)	**8.6**	**8.6**	10.3	10.3
Cash and cash equivalents (c)	Fair value (L1)	**32.6**	**32.6**	16.4	16.4
Currency guarantee receivable (payable) (c)	Fair value (L2)	**(5.0)**	**(5.0)**	28.2	28.2
Derivative instrument liability (c)	Fair value (L3)	**(24.0)**	**(24.0)**	(19.4)	(19.4)
		$ 18.5	**$ 18.5**	$ 54.7	$ 54.7
Loans and Receivables					
Restricted cash (d)	Amortized cost	**$ 23.2**	**$ 23.2**	$ 26.0	$ 26.0
Receivables and other (d)	Amortized cost	**93.0**	**93.0**	123.6	123.6
		$ 116.2	**$ 116.2**	$ 149.6	$ 149.6
Other Financial Liabilities					
Accounts payable and other (d)	Amortized cost	**$ 15.7**	**$ 15.7**	$ 54.7	$ 54.7
Mortgages (e)	Amortized cost	**1,944.7**	**2,003.7**	2,160.5	2,146.7
Mortgage bonds (e)	Amortized cost	**190.2**	**207.9**	228.4	208.4
Corporate non-asset backed bonds (e)	Amortized cost	**466.3**	**462.1**	522.7	441.0
Junior subordinated notes (e)	Amortized cost	**58.6**	**88.1**	67.6	70.6
Deferred financing charges (e)	Amortized cost	**(23.1)**	**(23.1)**	(27.0)	(27.0)
Construction financing (d)	Amortized cost	**95.0**	**95.0**	102.4	102.4
		$ 2,747.4	**$ 2,849.4**	$ 3,109.3	$ 2,996.8

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.

a) The investment in DEGI L.P. represents 10% of the limited partnership units. The partnership units are not traded in an active market. Accordingly, the investment is classified as available for sale and carried at cost, and is subject to testing for impairment in its carrying value.
b) Long term investments, with the exception of the investment in DEGI L.P., are carried at their fair values. The fair value of the Company's investment in Homburg Eastern European Fund B.V. is based on the proportionate share of the reported net asset value of the B.V.. The 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. The fair values of other long term investments are based on quoted market prices. A loss of $(1.2) million resulting from the change in fair values of investments was recorded against net loss during the period (2008 - loss of $ (23.1) million).
c) Cash and cash equivalents, the currency guarantee receivable and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of $(7.5) million for the period (2008 - loss of $(18.5) million).
d) 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, DIM Vastgoed 2010 liability and construction financing are carried at amortized cost which, due to their short term nature, approximates their fair value.
e) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes and long term payables. The fair values of these financial instruments are based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions.

TRANSACTION WITH RELATED PARTIES

The Company is controlled by the Chairman and Chief Executive Officer through holding companies.

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

	December 31 2009 *(thousands)*	December 31 2008 *(thousands)*
Rental revenue earned	**$ (788)**	$ (1,203)
Interest income (h)	**$ (768)**	$
Asset and construction management fees (k)	**$ 24,756**	$ 22,248
Property management fees incurred (k)	**$ 6,555**	$ 6,359
Insurance costs incurred	**$ 1,281**	$ 1,380
Service fees incurred	**$ 6,489**	$ 7,378
Property acquisition / disposal fees incurred (k)	**$ 1,065**	$ 4,544
Mortgage bond guarantee fees incurred (i)	**$ 2,898**	$ 3,532
Tenant improvements	**$**	$ 447
Bond and other debt issue costs incurred	**$ 1,434**	$ 6,025
Interest costs incurred (f) (g) (j)	**$ 2,798**	$ 336

b) Included in accounts payable is $15,393 thousand (December 31, 2008 - $18,408 thousand) payable to companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.

c) Included in restricted cash and accounts payable is a deposit on a condominium unit of $355 thousand from the Chairman and Chief Executive Officer. The unit will be purchased at market prices.

d) The Company has approved a resolution authorizing the property manager, a company commonly controlled by the Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the Company.

e) Professional services of approximately $294 thousand (December 31, 2008 - $315 thousand) were purchased from a corporation of which one of the Company's directors is affiliated.

f) Also included in trade payables is a demand note payable plus accrued interest in the amount of EUR €2,376 thousand ($3,573 thousand) (December 31, 2008 - EUR €2,284 thousand ($3,938 thousand)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 5.619% per annum.

g) Also included in accounts payable is a demand note payable plus accrued interest in the amount of USD $1,291 ($1,355 thousand) (December 31, 2008 - $NIL) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.

h) Included in accounts receivable is a demand note receivable plus accrued interest in the amount of EUR €6,795 (10,220) thousand (December 31, 2008 - $NIL) receivable from a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 7.25% per annum.

i) The Company has entered into a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum is 2.0% on the Series 2 Bonds, and 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds.

j) Included in non-construction demand loans is a promissory note payable plus interest in the amount of EUR €7,519 ($11,310) bearing interest at 6.0% per annum. This amount relates to the Company's investment in Homburg Eastern European Fund B.V. and is payable to that entity, and has no specific repayment terms.

k) Property and Asset Management Service Fees
The Company has entered into a Property and Asset Management Agreement, which expires on June 30, 2016, with a company commonly controlled by the 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) are in place, the Manager will not receive any property management fees;
(ii) For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases are not in place, fees will be a percentage of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 5% of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries);

(iii) For investment properties situated in Europe where Single Tenant Triple Net Leases are not in place, fees will be a percentage of annual rents as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 3.5% of annual rents;

(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 include the total hard and soft costs (including interest), but exclude land cost. The Manager will be 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 shall 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) are in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where a Single Tenant Triple Net Leases (as such term is defined above) are 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 will assume 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 are 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 will not be 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.

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

SUBSEQUENT EVENTS

a) Management is continuing to work towards the restructuring of the Company previously announced on December 16, 2009. As the initial step in the reorganization, it is expected that a preliminary prospectus for the Initial Public Offering ("IPO") of the Homburg Canada Real Estate Income Trust ("REIT") will be filed in the second quarter of 2010.

b) Subsequent to year end, the Company arranged a new credit facility (which has been fully utilized) in the amount of EUR €47.5 million, secured by way of the shares of a subsidiary company which owns an investment property.

c) As part of the proposed REIT IPO announced by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of $21.6 million provided for under the agreement, effective February 25, 2010. The payment was made on condition that management responsibilities would be fulfilled under the agreements until the finalization of the REIT IPO. If the REIT IPO was not completed, the amount paid would instead be credited against management services in accordance with the original agreements.

d) Subsequent to year end, the Company reduced the working capital deficit by paying down related party payables of approximately $26 million.

e) Subsequent to year end, the Company acquired a company controlled by the Chairman and CEO which holds Homburg Bond 11 notes issued by the Company, for $19.6 million.

f) Subsequent to year end, the Company sold six properties for gross proceeds of approximately $46.4 million. Approximately $27.0 million (EUR €18.0 million) of the net proceeds was utilized towards the partial redemption of Homburg Mortgage Bond 2, and approximately $8 million was used to repay specific mortgages relating to the properties.

g) Subsequent to year end, the Company settled its liability in relation to the DIM 2010 Shares. The Company currently holds 766,573 shares of DIM which will be converted to 536,601 Equity One shares.

h) The Company has received indication of a favourable response to a request for an Advance Income Tax Ruling. Upon receipt of the final Ruling, the Company will reorganize the assets of a subsidiary Trust of which it is the sole beneficiary. Upon completion of the reorganization, it is expected that the Company will realize a capital loss sufficient to enable a carry back to 2007 to fully offset the remaining income tax payable for discontinued operations. The expected benefit has been recognized at December 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

Cost Recoveries
As a real estate company, Homburg Invest Inc. for the most part is able to match its costs and revenues on a cash basis with accruals being made at each quarter and year end to ensure that the costs recorded match the revenue streams of the properties. As most of the costs incurred on the commercial operations are cost recoveries from the tenants, the accounting systems of the Company are set up to provide the appropriate matching. Accounting estimates are made in such areas as property tax accruals and insurance accruals which are readily determinable based on historical costs or current changes in the marketplace. There are no cost estimates which are not reasonably determinable and therefore the Company is able to realistically report its accounting estimates.

Depreciation
The Company utilizes the straight line method of calculating depreciation. In order to arrive at the appropriate estimated remaining useful lives and residual values to be used, the Company consulted with outside experts familiar with the Company's real estate portfolio. A significant increase or decrease in the annual depreciation charge resulting from a future change in the estimates would affect net earnings and earnings per share. Actual future results from the operation and eventual disposition of properties may prove these estimates inaccurate.

Impairment of Real Estate
One of the most significant areas requiring the use of estimates is with respect to the assessment of impairment of investment and development properties. Such assessments require estimates of the future cash flows to be generated over an estimated ownership period, the amount to be realized upon sale of the asset, an assessment of the Company's ability to refinance related debts, and the current fair value of assets that are determined to be impaired. Actual results could differ significantly from these estimates.

Allowance for Doubtful Accounts
The outstanding receivables are reviewed and evaluated on a monthly basis. The allowance for doubtful accounts is adjusted based on this review. These estimates result from the application of judgment and therefore are subject to uncertainty. The Company monitors these estimates on a continual basis.

CHANGES IN ACCOUNTING POLICIES

In October 2008, the Canadian Institute of Chartered Accountants ("CICA") concurrently issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". Section 1582, which will replace Section 1581 "Business Combinations", establishes standards for the measurement of a business combination, and for the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which will replace Section 1600 "Consolidated Financial Statements", continues the existing guidance on aspects related to the preparation of consolidated financial statements subsequent to acquisition, other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011 and early adoption is permitted at the start of a fiscal year. The Company has determined that it will not adopt these new standards prior to adopting IFRS.

On January 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets". The new section establishes standards for recognition, measurement and disclosure and replaces existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new standard was applied retroactively which resulted in certain comparative amounts being reclassified.

On January 20, 2009 the CICA issued a new Emerging Issues Committee ("EIC") abstract EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not significantly impact the Company's financial statements.

In December 2008, amendments to CICA Financial Instrument Sections 3855 "Recognition and Measurement", 3861 "Disclosure and Presentation", and 3862 "Disclosures", were issued to provide companies with the ability to reclassify financial assets out of the "held-for-trading" and "available-for-sale" categories in certain circumstances. The amendments are applicable to the Company for its annual period beginning January 1, 2009, on a prospective basis. The adoption of these amendments did not significantly impact the Company's financial statements. In addition, Section 3862 was amended to require certain additional disclosures which have been provided in Note 20 of the financial statements.

The Canadian Accounting Standards Board of the CICA confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011. IFRS will replace Canada's current GAAP. Comparative IFRS information for the previous fiscal year will also have to be reported. The Company is currently in the process of preparing its application to Canadian securities regulators for exemptive relief to be granted to allow the Company to early adopt IFRS on January 1, 2010. The Company has been preparing its financial statements under both Canadian GAAP and IFRS since 2000, and therefore the impact of early adoption on the Company will be insignificant. The Company's financial statements prepared under IFRS (as well as Canadian GAAP) can be obtained via the SEDAR website www.sedar.com.

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 Canadian Generally Accepted Accounting Principles (GAAP).

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

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Over Financial Reporting - Guidance for Smaller Public Companies. Based on these evaluations, Management, including the CEO and CFO conclude that as at December 31, 2009:

(i) Disclosure controls and procedures were effective to provide reasonable assurance that material information was made known to Management and information required to be disclosed by the Company in its annual filings, interim filings and other reports filed by the Corporation under securities legislations was recorded, processed, summarized and reported within the periods specified in securities legislation.

(ii) Internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

MATERIAL CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no material changes in internal controls over financial reporting in 2009. With the previously announced reorganization of Homburg Invest Inc. into a public holding company, all internal control systems will be reassessed for operating effectiveness.

OTHER REQUIREMENTS

(a) Additional information relating to Homburg Invest, including its Annual Information Form (AIF) is on the Company's website at www.homburginvest.com and at SEDAR at www.sedar.com.

(b) The Company continues to prepare its results under International Financial Reporting Standards ("IFRS") as well as under Canadian GAAP and makes both sets of financial statements available at SEDAR at www.sedar.com.

(c) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at December 31, 2009, 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, 16,618,818 Class A Subordinate Voting Shares and 3,148,539 Class B Multiple Voting Shares were issued for a recorded value of $691.8 million.

2010 OUTLOOK AND PROPOSED TRANSACTIONS

Reorganization of Real Estate Assets
On December 16, 2009, the Company announced that the Board of Directors had authorized a major reorganization of the Company's real estate assets in order to unlock value for shareholders. To accomplish its goal of unlocking value, HII will divide its assets among five new entities owned or initially controlled by the Company. Three of the five new entities will be geographically focused real estate companies, each structured as either a real estate corporation or a real estate investment trust ("REIT"), and each listed on a stock exchange located in proximity to the assets of the spun-off company. HII will henceforth be structured as a public holding company with, initially, significant equity interests in each of the five new entities.

Homburg Canada REIT
As the initial step in the reorganization, HII announced that it will move immediately to create the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold all of the Company's Canadian income producing real estate properties. Homburg Canada REIT is expected to become a publicly traded REIT by way of an initial public offering ("IPO") in the first half of 2010, subject to market conditions and necessary regulatory approvals. With approximately $1 billion in initial assets, Homburg Canada REIT will be among the larger publicly traded REIT's in Canada, with a national and diversified asset base. Homburg Canada REIT will have a new and separate Board of Trustees, its own fully internalized management (both asset management and property management), and its head office in Montreal, Quebec. Homburg Canada REIT will initially have a debt-to-equity ratio consistent with that of its Canadian publicly traded peers, but will target a debt-to-equity ratio of 50:50 over time. Details of the transaction, including strategy, management team and other relevant operating and financial information, will be fully disclosed by way of prospectus to be filed in connection with the IPO. Homburg Canada REIT will apply to list its units on the Toronto Stock Exchange. TD Securities Inc. has been engaged by HII to act as the exclusive lead bookrunner of the IPO of Homburg Canada REIT.

The decision to reorganize HII on this basis is a refinement of the Company's strategic initiatives announcement of June 12, 2009. This strategy enables the Company to more effectively unlock the value in each of its geographical operating areas by matching local real estate assets to investors who understand their local markets. This structure will highlight the intrinsic value of the Company's assets and enable it to access capital from a variety of different markets.

Homburg Development Company
In order to develop its land holdings, particularly in Calgary, Alberta, HII is creating Homburg Development Company ("HDC") to hold all development properties and lands held for development in Alberta and other Canadian markets. For the immediate future, HDC will remain a wholly-owned subsidiary of HII. However, HII may consider additional measures to surface value in HDC, including the possibility of merging the company with an appropriate partner.

Western Europe
A newly incorporated entity will be created to hold all German and Dutch assets of the Company, as well as any new assets that may be acquired in Western Europe. At the appropriate time, the new subsidiary will be taken public and listed on the NYSE Euronext Amsterdam and/or another European exchange.

Eastern Europe
It is contemplated that all Eastern European assets of HII will eventually be transferred to a separate company whose shares will be listed on an appropriate exchange in Europe.

United States
All U.S. properties and U.S. joint venture interests of the Company will remain in a wholly owned U.S. subsidiary of HII.

Homburg Invest - Structure, Cash Flow and Dividends
HII will remain a publicly traded holding company with equity interests of varying levels in each of the five new entities. Although HII will hold equity interests in each of the new publicly traded entities at the time of listing, the Company intends to reduce its equity interests to below 50% over time. As the ultimate holding company, HII will collect its share of dividends and/or other cash distributions from its investments in the publicly traded subsidiaries of the Company. This cash flow from the operating divisions will be used to pay interest on outstanding HII bonds, to redeem bonds or finance the redemption of bonds as they come due and at the appropriate time, to restore dividends on the Company's shares. In the event that HII sells shares in any of its divisions, the proceeds may also be used to redeem outstanding HII bonds.

The new structure is intended to ensure that the market is more readily able to value each of HII's portfolios, to increase market liquidity and financial flexibility. Unlocking value via a spin-off of assets, regular dividend payments and/or distributions from the subsidiaries to HII and by the pay-down of debt will all contribute to enhancing value at HII. This program will enable us to build value for shareholders in a transparent manner, and to consider a dividend program for our shareholders at HII at an early opportunity.

The new structure will enable investors to choose between investing in a wide range of global assets through an investment in HII shares, or in specific geographically focused real estate portfolios, such as the Homburg Canada REIT.

By focusing on attracting greater local investment to each geographical asset class, this new structure enables HII to ensure that our assets in any one geographical area are fully valued by investors who understand the market. Through our retained equity interests in each of the five entities, HII shareholders will benefit from the full valuation of our local assets, while enabling us to continue investing along the global skyline.

The Company's objective for 2010 is to grow the asset base in a prudent and accretive manner. With the tightening of the capital markets, the Company considers it is prudent to raise cash from various sources and will be exploring various alternatives such as partnering of deals, selling a portion of specific projects, delaying start of development projects and the issue of new equity bonds. Management continues to investigate real estate transactions and these are brought forward to the Board of Directors if and when it is determined that they are potentially accretive to shareholder value. Although no significant property acquisitions or disposals are currently in progress, Homburg Invest continues to look at a number of opportunities in the Canadian, European and US marketplace as our strong entrepreneurial management team demonstrates the willingness and abilities to adapt to changes in the real estate market environment. The Company invests in real property for the long term; however, real estate is a commodity and the Company is evaluating each of its properties to determine if the optimum value of certain assets may be realized through disposition. The Company continues to monitor and determine the most appropriate action to take over the coming year.

Class A and Class B shares
Following consultation with a number of shareholders and advisors, HII announced on December 16, 2009 that the Company is withdrawing its proposal to reorganize its multiple and single voting shares into a single class of common shares. Key shareholders echoed what governance experts have acknowledged in recent years: there is significant added value in having a strong founding shareholder with a majority of voting shares, whose experience and expertise provide stability and long-term vision. In addition, some shareholders expressed concern that the proposed share reorganization was coming at a time when Homburg Invest shares were trading at a substantial discount to net asset value, thereby opening the way for a potential hostile takeover of the Company.

The Company prides itself on its ability to be creative and react to market conditions, and is motivated to raise cash without issuing common equity to be in a position to take advantage of opportunities. The Company considers that with its current share price significantly below the net asset value per share, no new shares will be issued that would have a dilutive effect on existing shareholders. New shares will only be issued at a price that offers a significant premium over net asset value per share. The Company will pay annual dividends to its shareholders, subject to market conditions, and will continue to be listed on both the Toronto Stock Exchange and on the NYSE Euronext Amsterdam.

"Signed"	"Signed"
R. Homburg, Phzn., D. Comm. Chairman and CEO	James F. Miles, CA Vice President Finance and CFO

HOMBURG

FORM 52-109F1
Certification of Annual Filings

I, Richard Homburg, Chairman and Chief Executive Officer of Homburg Invest Inc., certify that:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Homburg Invest Inc., (the issuer) for the financial year ended December 31, 2009.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officers 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 officers and I have, as at the financial year end:

   (a) designed DC&P, or caused them to be designed under our supervision, to provide reasonable assurance that:

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) Information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

HOMBURG

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 Committee of Sponsoring Organizations of the Treadway Commission's Internal Control Framework.

5.2 N/A

5.3 N/A

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

(a) evaluated, or cause to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

(b) evaluated, or cause to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuers has disclosed in its annual MD&A:

(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

(ii) N/A

7. ***Reporting changes in ICFR:*** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

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

Date: March 31, 2010

Richard Homburg, Phzn., D. Comm.
Chairman and Chief Executive Officer
Homburg Invest Inc.

HOMBURG

FORM 52-109F1
Certification of Annual Filings

I, James F. Miles, Vice President Finance and Chief Financial Officer of Homburg Invest Inc., certify that:

1. ***Review:*** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Homburg Invest Inc., (the issuer) for the financial year ended December 31, 2009.

2. ***No misrepresentations:*** Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. ***Fair presentation:*** Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

4. ***Responsibility:*** The issuer's other certifying officers 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 officers and I have, as at the financial year end:

   (a) designed DC&P, or caused them to be designed under our supervision, to provide reasonable assurance that:

      (i) material information relating to the issuer is made known to us by others, particularly during the period in which the annual filings are being prepared; and

      (ii) Information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

   (b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

HOMBURG

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 Committee of Sponsoring Organizations of the Treadway Commission's Internal Control Framework.

5.2 N/A

5.3 N/A

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

(a) evaluated, or cause to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and

(b) evaluated, or cause to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuers has disclosed in its annual MD&A:

(i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and

(ii) N/A

7. ***Reporting changes in ICFR:*** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2009 and ended on December 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

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

Date: March 31, 2010

James F. Miles, CA
Vice President Finance and Chief Financial Officer
Homburg Invest Inc.