

**Homburg Invest Inc.**  
**Consolidated Financial Statements**  
**International Financial Reporting Standards**

**December 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Homburg Invest Inc.**

We have audited the accompanying consolidated financial statements of **Homburg Invest Inc. (the "Company")**, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Homburg Invest Inc.** as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Halifax, Canada,  
March 31, 2011.

*Ernst & Young LLP*

Chartered Accountants

# Homburg Invest Inc.

## Consolidated Balance Sheet

		December 31 2010	December 31 2009
(CAD \$ thousands except per share amounts)	Note		
<b>Assets</b>			
<b>Non-current assets</b>			
Investment properties	10, 27	\$ 1,401,727	\$ 2,739,415
Investment properties under development	10	217,363	245,896
Investments, at fair market value	6	8,864	27,942
Investment in an associate, at equity	7	191,702	
Restricted cash	8	4,088	23,159
Deferred tax assets	15	8,316	26,715
		<u>1,832,060</u>	<u>3,063,127</u>
<b>Current assets</b>			
Cash and cash equivalents		13,617	32,569
Properties under development for resale	9	36,932	73,957
Receivables and other	5	36,025	49,639
		<u>86,574</u>	<u>156,165</u>
Assets classified as held for sale	16	144,247	72,957
		<u>230,821</u>	<u>229,122</u>
<b>Total assets</b>		<b>\$ 2,062,881</b>	<b>\$ 3,292,249</b>
<b>Equity and Liabilities</b>			
<b>Total equity</b>	17	<b>\$ 101,676</b>	<b>\$ 200,071</b>
<b>Non-current liabilities</b>			
Long term debt	14	1,433,340	2,017,440
Derivative financial instruments	21	21,847	24,045
Deferred tax liabilities	15	40,055	31,474
Other liabilities	11	10,340	12,838
Provisions	12	10,287	17,124
		<u>1,515,869</u>	<u>2,102,921</u>
<b>Current liabilities</b>			
Accounts payable and other liabilities	11	102,783	195,891
Income taxes payable	15	8,243	13,760
Construction financing	13	40,231	94,999
Current portion of long term debt	14	185,168	624,284
Provisions	12	16,922	16,965
		<u>353,347</u>	<u>945,899</u>
Liabilities associated with assets classified as held for sale	16	91,989	43,358
		<u>445,336</u>	<u>989,257</u>
<b>Total liabilities</b>		<b>1,961,205</b>	<b>3,092,178</b>
<b>Total equity and liabilities</b>		<b>\$ 2,062,881</b>	<b>\$ 3,292,249</b>
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Approved by the Board, March 31, 2011			
<b>"Signed"</b>		<b>"Signed"</b>	
Michael Arnold		Edward P. Ovsenny	
Director		Director	

**Homburg Invest Inc.**  
**Consolidated Statement of Loss**  
**Year Ended December 31**

(CAD \$ thousands except per share amounts)

	<b>Note</b>	<b>2010</b>	<b>2009</b>
Property revenue	27	\$ 133,004	\$ 175,579
Sale of properties developed for resale		<u>15,061</u>	<u>110,274</u>
<b>Total revenues</b>		<b><u>148,065</u></b>	<b><u>285,853</u></b>
Property operating expenses	27	25,628	32,663
Cost of sale of properties developed for resale		<u>21,369</u>	<u>157,657</u>
		<b><u>46,997</u></b>	<b><u>190,320</u></b>
<b>Gross income from operations</b>		<b>101,068</b>	<b>95,533</b>
General and administrative		(14,820)	(14,238)
Stock based compensation		(88)	(146)
Other income, net		6,422	1,602
Dividend income		431	1,539
Share of income of an associate	7	(12,628)	
Gain on sale of investments		3,600	2,239
Gain on sale of subsidiary	19	107,164	
Impairment on properties under development for resale	9	(7,811)	(27,779)
Net adjustment to fair value of:			
Investment properties	10	(31,112)	(312,227)
Investment properties under development	10	(16,777)	(48,707)
Held for trading financial assets	6, 21	88	(1,187)
Derivative financial instruments	21	(677)	(7,486)
Interest expense	11, 14	(110,648)	(124,614)
Foreign exchange gain		20,147	24,201
Change in provision	12	<u>5,161</u>	<u>(34,089)</u>
Income (loss) from continuing operations before income taxes		<u>49,520</u>	<u>(445,359)</u>
Income tax expense (recovery)	15	<u>31,197</u>	<u>(83,482)</u>
<b>Net income (loss) from continuing operations</b>		<b>18,323</b>	<b>(361,877)</b>
Net loss from discontinued operations after tax	16	<u>(106,377)</u>	<u>(87,385)</u>
<b>Net loss</b>		<b>\$ <u>(88,054)</u></b>	<b>\$ <u>(449,262)</u></b>
<b>Earnings (loss) per share</b>			
18			
Per Class A Subordinate Voting Share and Class B Multiple Voting Share:			
Basic and Diluted			
Net earnings (loss) from continuing operations		\$ <u>0.75</u>	\$ <u>(18.33)</u>
Net loss from discontinued operations		\$ <u>(5.27)</u>	\$ <u>(4.41)</u>
Net loss per share		\$ <u>(4.52)</u>	\$ <u>(22.74)</u>

**Homburg Invest Inc.**  
**Consolidated Statement of Comprehensive Loss**  
**Year Ended December 31**

(CAD \$ thousands except per share amounts)

		<b>2010</b>	<b>2009</b>
<b>Net loss</b>		<b>\$ <u>(88,054)</u></b>	<b>\$ <u>(449,262)</u></b>
Other comprehensive (loss) income :			
Unrealized foreign currency translation loss		<b>(48,030)</b>	(83,916)
Realized foreign currency translation loss	19	<b>(24,407)</b>	
Deferred income tax recovery	15, 17	<b><u>9,410</u></b>	<u>50,775</u>
		<b><u>(63,027)</u></b>	<u>(33,141)</u>
Foreign currency gain on financial instruments designated as hedges of self sustaining foreign operations		<b>49,750</b>	51,485
Disposal		<b>3,163</b>	
Deferred income tax expense		<b><u>(7,920)</u></b>	<u></u>
		<b><u>44,993</u></b>	<u>51,485</u>
Change in fair value of available for sale financial assets	21	<u></u>	<u>231</u>
<b>Other comprehensive (loss) income</b>	<b>17</b>	<b><u>(18,034)</u></b>	<u>18,575</u>
<b>Comprehensive loss</b>		<b>\$ <u><u>(106,088)</u></u></b>	<b>\$ <u><u>(430,687)</u></u></b>

**Homburg Invest Inc.**  
**Consolidated Statement of Changes in Equity**  
**Year Ended December 31**  
(CAD \$ thousands except per share amounts)

	Other Paid In Capital	Share Capital	Contributed Surplus	Accumulated Other Comprehensive (Loss) Income	Deficit	Total
<b>December 31, 2008</b>	<b>11,489</b>	<b>698,535</b>	<b>7,206</b>	<b>649</b>	<b>(106,980)</b>	<b>610,899</b>
Comprehensive income (loss)				18,575	(449,262)	(430,687)
Dividend re: DIM Vastgoed N.V. dividend guarantee					(260)	(260)
Homburg Capital Securities A (Note 17d)	22,946				(1,627)	21,319
Acquisition & cancellation of own shares		(6,750)	5,404			(1,346)
Stock based compensation			146			146
<b>December 31, 2009</b>	<b>34,435</b>	<b>691,785</b>	<b>12,756</b>	<b>19,224</b>	<b>(558,129)</b>	<b>200,071</b>
Equity contribution (net of tax) (Note 23j)			4,932			4,932
Comprehensive loss				(18,034)	(88,054)	(106,088)
Shares issued re DIM 2010	(11,489)	11,489				
Acquisition & cancellation of own shares		(2,240)	1,821			(419)
Homburg Capital Securities A (Note 17d)	6,225				(3,133)	3,092
Stock based compensation			88			88
<b>December 31, 2010</b>	<b>\$ 29,171</b>	<b>\$ 701,034</b>	<b>\$ 19,597</b>	<b>\$ 1,190</b>	<b>\$ (649,316)</b>	<b>\$ 101,676</b>

The accompanying notes are an integral part of these consolidated financial statements prepared in accordance with IFRS.



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

(CAD \$ thousands except per share amounts)	Note	2010	2009
Cash obtained from (used in)			
<b>Operating activities</b>			
Net income (loss) from continuing operations		\$ 18,323	\$ (361,877)
Items not affecting cash:			
Gain on sale of subsidiary		(107,164)	
Gain on sale of investments		(3,600)	(2,239)
Fair market value changes on:			
investment properties		31,112	312,227
development properties		16,777	48,707
Impairment loss on properties under development		7,811	27,779
Change in provisions	12	(5,161)	34,089
Loss on derivative instruments		677	7,486
Distribution income from associate		8,188	
Amortization of financing fees		4,703	3,920
Loss from associate		12,628	
Deferred rental income		(4,849)	(6,722)
Deferred income taxes		42,794	(79,106)
Stock based compensation		88	146
Fair value change in financial assets		(88)	1,187
Accretion of discounted liabilities			1,453
Foreign exchange gain		(20,147)	(24,201)
		2,092	(37,151)
Change in non-cash working capital and other	20	(22,354)	91,311
Net cash (used in) from continuing operations		(20,262)	54,160
Net cash from discontinued operations	16	3,744	3,522
<b>Net cash (used in) from operating activities</b>		<b>(16,518)</b>	<b>57,682</b>
<b>Investing activities</b>			
Investment in investment properties		(1,908)	(1,951)
Decrease in restricted cash		639	2,576
Proceeds on sale of investments		10,340	13,946
Purchase of long term investments		(1,079)	
Investment in development properties		(44,644)	(42,618)
Discontinued operations	16	103,332	(24,969)
<b>Net cash used in investing activities</b>		<b>66,680</b>	<b>(53,016)</b>
<b>Financing activities</b>			
Decrease in demand loans		(41,648)	(10,468)
Increase (decrease) in mortgages payable		1,307	(23,373)
Proceeds (repayment) from bonds		(51,429)	11,043
Increase (decrease) in related party receivable		10,220	(10,220)
Increase (decrease) in deferred financing charges		2,499	(2,318)
Repurchase of common shares and issue costs		(419)	(1,346)
Decrease in related party payable		(3,556)	(14,180)
Increase (decrease) in construction financing		3,925	(7,434)
Homburg Capital Securities A proceeds	17d	4,598	37,116
Discontinued operations	16	5,389	32,724
<b>Net cash from financing activities</b>		<b>(69,114)</b>	<b>11,544</b>
<b>Increase (decrease) in cash</b>		<b>(18,952)</b>	<b>16,210</b>
Cash, beginning of year		32,569	16,359
<b>Cash, end of year</b>		<b>\$ 13,617</b>	<b>\$ 32,569</b>
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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

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**1. Basis of financial statement presentation**

Homburg Invest Inc. (the "Company") is a Canadian resident corporation which trades on the Toronto Stock Exchange ("TSX") as well as the NYSE Euronext Amsterdam ("AEX"). To comply with TSX and AEX reporting requirements, these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a historical cost basis, except for investment properties, development properties, derivative financial instruments and certain long term investments which are measured at fair value as more fully described in Note 4. The Company applied for and obtained approval of the OSC to file IFRS financial statements to meet its Canadian reporting obligations effective June 30, 2010.

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

The Company has been negatively impacted by continuing global economic conditions which have resulted in a decrease in real estate transactions and declining real estate values. The Company incurred net losses of \$88,054 and \$449,262 for the years ended December 31, 2010 and 2009, respectively, and is highly levered with a debt to equity ratio of 16.55:1 at December 31, 2010 (Note 22) and an interest coverage ratio of below 1:1 for the year ended December 31, 2010.

The Company's liquidity risks are more fully described in Note 21. Through June 2012, the Company faces maturities of its mortgage bonds totalling €102,480 (\$135,846), in addition to regularly scheduled principal payments and maturities related to other mortgage debts.

The Company will seek to extend the maturity or otherwise refinance amounts due on its mortgage bonds through the issue of new mortgage bonds. However, there is no certainty that these efforts will be successful. Subsequent to year end the Company arranged new thresholds for the interest coverage and tangible net worth covenants in respect of its junior subordinate notes amounting to \$53,145 at December 31, 2010. The new interest coverage requirement is 0.8:1 and the new minimum tangible net worth requirement is \$100 million throughout 2011. These thresholds increase gradually after December 31, 2011 thru December 31, 2015. The Company anticipates it will be below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment.

The Company could meet refinancing shortfalls through the sale of development assets, income producing properties, or additional units of Homburg Canada REIT ("HCREIT"). However, the Company's liquidity needs may limit its ability to maximize the price to be realized on such asset sales. The Company expects that it will be able to refinance its other mortgage maturities at similar amounts and terms.

The Company successfully completed the initial public offering ("IPO") of HCREIT, which now holds the Company's Canadian income producing real estate assets and related mortgage debt. As of year end, the Company has a 33.7% interest in HCREIT, however, subsequent to year end the Company sold 2.5 million of the units for net consideration of \$26,800 which was used by the Company to reduce debt and for general operating purposes (Note 29).

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 ("ring fenced structure"). However, the Company's mortgage bonds and unsecured debts have recourse to the consolidated assets of the Company.

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.

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**2. Corporate information**

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. These consolidated financial statements were authorized for issue in accordance with a resolution of the board of directors on March 31, 2011, and are subject to approval by the shareholders at the Company's annual general meeting.

The Company is directly and indirectly controlled by Mr. Richard Homburg, the former 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").

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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**  
(CAD \$ thousands except per share amounts)

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

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

*IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements*

These revisions / amendments are effective for fiscal years beginning on or after July 1, 2009 and must be adopted concurrently. The revision to IFRS 3 clarifies the distinction between a business combination and an asset acquisition and requires that transaction costs incurred on business combinations be expensed when incurred, which will impact the amount of goodwill recognized and the reported results in the period an acquisition occurs and prospectively. The amended IAS 27 clarifies the circumstances under which an entity must consolidate another entity; the accounting for changes in the level of ownership of a subsidiary, including loss of control; and, the required disclosure regarding the nature of the relationship. The adoption of these accounting policies did not have any impact to the financial position or the performance of the Company.

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**4. Summary of significant accounting policies**

*General and consolidation*

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). The consolidated financial statements comprise the financial statements of the Company, and the entities that it controls, as at December 31 each year. Control is present when a company has the power, directly or indirectly, to control the financial and operational policies of the controlled entity. In determining control, the effect of potential voting rights existing as at the balance sheet date are taken into account. The Company consolidates the entities that it controls from the moment it achieves control until the time this control ceases. Entities subject to joint control arrangements are proportionately consolidated based upon the Company's interest (Note 28). The financial statements of the consolidated and proportionately consolidated entities are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated in full.

*Investment properties*

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

*Investment properties under development*

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

*Properties under development for resale*

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

*Capitalization of costs*

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

*Revenue recognition*

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

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

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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

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**4. Summary of significant accounting policies (cont.)**

Revenue from the sale of properties developed for resale, including condominium units, is recorded upon completion when sale proceeds and costs can be reliably measured, collection of sale proceeds is reasonably assured, and all other significant criteria respecting transfer of risks and rewards of ownership are met which is generally based on an assessment of the terms of each significant construction contract. Construction properties which have been sold but for which these criteria have not been satisfied are included in construction properties being developed for resale in the consolidated balance sheet. There were no such properties at December 31, 2010 or December 31, 2009.

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

*Income taxes*

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

*Cash and cash equivalents*

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

*Foreign currency*

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

*Stock options and contributed surplus*

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

*Long term investments*

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

*Investments in an associate*

The Company holds a significant influence investment in Homburg Canada Real Estate Investment Trust ("HCREIT"). As the Company intends to hold the investment long term the investment is accounted for using the equity method in accordance with IAS 28 - Investments in Associates. Under IAS 28 the investment is initially recognized at cost and the carrying amount is adjusted to recognise the Company's share of the profit or loss of HCREIT at each subsequent reporting period. The carrying amount of the investment is reduced for distributions the Company receives.

*Derivative financial instruments*

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

*Determination of cost of sales*

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

*Long term debt*

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

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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

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**4. Summary of significant accounting policies (cont.)**

*Significant accounting judgments, estimates and assumptions*

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

*Judgments*

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

- i) Operating lease commitments - Company as lessor. The Company has entered into commercial and residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it has not transferred substantially all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.
- ii) Consolidation and proportionate consolidation of Limited Partnerships (L.P.'s). A large portion of the Company's investment properties are held in L.P.'s. In certain of these L.P.'s, the Company is the sole limited partner and it has been determined that the Company is able to exercise full control. Accordingly, these entities are consolidated. In other partnerships, the Company's share is less than 100% (Note 28). Homburg LP Management Inc., a company directly and indirectly controlled by the former Chairman and CEO, acts as the general partner in all partially owned L.P.'s, except the Cedar joint venture in which the general partner is related to the minority limited partner. The Company has concluded that it is able to exercise joint control over all entities which are less than 100% owned, primarily established by terms which require the unanimous consent of all partners for major partnership decisions. Accordingly, these entities are proportionately consolidated.

*Estimates and assumptions*

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

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

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

**5. Receivables and other**

	<u>2010</u>	<u>2009</u>
Trade receivables	\$ 27,955	\$ 35,341
Notes receivable		1,601
Prepays	661	2,477
Related party receivable (Note 23 i, p)	<u>7,409</u>	<u>10,220</u>
	<u>\$ 36,025</u>	<u>\$ 49,639</u>

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

	<u>2010</u>	<u>2009</u>
Cedar Shopping Centers, Inc. (a)	\$ 564	\$ 607
HEEF B.V. (b)	7,221	8,605
DEGI L.P. (c)		13,059
Homburg MediArena B.V. (d)	1,079	
DIM Vastgoed N.V., October 2010 closing (e)	<u>8,864</u>	<u>5,671</u>
	<u>\$ 8,864</u>	<u>\$ 27,942</u>

- (a) The Company holds 50,000 (December 31, 2009 - 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 L.P. represented 10% of the limited partnership units. This investment was sold as part of the HCREIT transaction.
- (d) The Company holds a 10% interest in Homburg MediArena B.V., which owns an investment property in the Netherlands. The Company does not have the ability to participate in the financial and operating policy decisions of Homburg MediArena B.V., and as such does not apply equity accounting to its investment (Note 23).
- (e) At December 31, 2009, the Company had an investment in DIM Vastgoed N.V. ("DIM"), a real estate investment company listed on the NYSE Euronext. The investment consisted of deposit receipts representing 766,573 shares of DIM which, during 2010, were converted to 536,601 Equity One shares and subsequently sold for proceeds of approximately USD \$10.3 million (CAD \$10.3 million)



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

	<u>2010</u>
Homburg Canada Real Estate Investment Trust (33.7% interest)	
Balance, beginning of the year	\$ NIL
Acquisition of investment	212,518
Distributions received	(8,188)
Deemed disposition	(12,693)
Share of net income	65
Balance at December 31, 2010	<u>\$ 191,702</u>

On May 25, 2010, the Company obtained a significant influence investment in HCREIT. On October 27, 2010 HCREIT completed a public offering of units on a bought deal basis, this issue resulted in a deemed disposal of the Company's investment and a decrease in ownership from 41.2% to 33.7%. The company holds 33.70% of the HCREIT units at December 31, 2010.

Subsequent to year end on February 23, 2011 the Company participated in a public offering of Units with HCREIT on a bought deal basis. The Company sold 2,500 units for gross proceeds of \$28,500 which will result in a deemed disposition loss of approximately \$11,500. The underwriters exercised their over-allotment option, resulting in a total of 8,598 units being issued. The issue by HCREIT and sale by HII brought HII's voting ownership in the REIT from 33.7% to 23.1% (Note 29).

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

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

The acquisition of the investment was recorded at the fair value of the HCREIT units received on May 25, 2010 of \$143,139 which was based on their trading price at that date. In addition, the acquisition amount includes \$69,380 million relating to a bargain purchase gain based on the Company's share of the fair value of the net identifiable assets of HCREIT.

The fair market value of the investment at December 31, 2010 was \$158,598 based on published price quotations for HCREIT (TSX: HCR.UN).

The bargain purchase gain arises primarily as a result of the fair value of the investment properties now held by HCREIT. As a result of the bargain purchase gain, the current carrying amount of the investment in HCREIT exceeds the current trading price of the HCREIT units held. Should the Company decide to sell all or a portion of the HCREIT units at or near their current trading price, it would recognize a loss. The Company will assess at each reporting date whether there is any objective evidence that its investment is impaired. The Company considers the impairment indicators in IAS 39 - Financial Instruments. A loss event giving rise to this evidence is one that occurs after the investment is first recognized and impacts the expected future cash flows to be generated from the investment. If a loss event occurs, the Company will determine the recoverable amount of its investment in accordance with IAS 36 - Impairment. At December 31, 2010, no such loss event has occurred. Should a loss event arise in the future, the Company may be required to recognize an impairment loss.

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**8. Restricted cash**

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

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**9. Properties under development for resale**

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 73,957	\$ 194,638
Construction and development costs capitalized	627	80,864
Disposals (Note 23 p)	(8,472)	
Capitalized interest		5,214
Impairment loss	(7,811)	(27,779)
Net transfers to investment properties under development		(21,323)
Cost of properties sold	(21,369)	(157,657)
Balance, end of year	<u>\$ 36,932</u>	<u>\$ 73,957</u>

The Company classifies its construction properties under development for resale as current assets. The Company expects these properties to be completed within their normal operating cycle for such properties, which may extend beyond one year. The Company's construction properties under development for resale include condominium developments that have yet to fully realize their cash flow from sales of units. Capitalized interest in the prior year relates to a property classified as a property under development for resale in the prior year which has been reclassified to Investment property under development. There was no capitalized interest in the current year.

**10. Investment properties**

	<u>Investment Properties</u>		<u>Investment Properties Under Development</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 2,739,415	\$ 3,549,744	\$ 245,896	\$ 224,285
Acquisition through purchases				4,150
Capital expenditure	4,948	34,299	27,615	31,857
Capitalized interest			16,953	12,988
Deferred rental receipts	5,286	5,208		
Disposals and transfers to assets held for resale (Note 19 & 23p)	(1,117,939)	(111,297)	(56,324)	
Currency translation adjustment	(198,871)	(293,578)		
Net transfers from properties under development for resale				21,323
Unrealized fair value adjustment	(31,112)	(444,961)	(16,777)	(48,707)
Balance, end of year	\$ 1,401,727	\$ 2,739,415	\$ 217,363	\$ 245,896

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

(i) External appraisals

At December 31, 2010 external appraisals were obtained for investment properties with an aggregate fair value of \$1,296 million (2009 - \$2,281 million) representing 92.5% (2009 - 83.3%) of the fair value at that date, and for an aggregate fair value of \$98 million (2009 - \$186 million) for investment properties under development, representing 45.1% (December 31, 2009 - 75.6%) of the fair value at that date.

(ii) Discounted Cash Flow Method of Valuation

Under this method, discount rates are applied to the annual operating cash flow (property revenue less property operating expenses). The key assumption is the discount rate for each specific property. The Company received capitalization rate reports from external knowledgeable property valuers and discount rates were derived from these reports. The discounted cash flow method of valuation was reconciled to the capitalized net operating income method using capitalization rates to ensure valuation accuracy and reasonableness. To the extent that the externally provided capitalization rates or discount rates change from one reporting period to the next; or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly. The Company utilized the following weighted average capitalization rates or discount rates and has determined that an increase (decrease) in the applied capitalization rate or discount rate of 0.10% in any of its geographic segments would result in an increase or decrease in the fair value of the Investment properties, as follows:



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**10. Investment properties (cont.)**

	As at December 31, 2010			As at December 31, 2009		
	Average Capitalization Rate	Impact of 0.10% change Increase	Decrease	Average Capitalization Rate	Impact of 0.10% change Increase	Decrease
Germany	6.33 %	\$ 11,685	\$ 12,061	5.84 %	\$ 14,673	\$ 15,184
The Netherlands	7.46 %	5,221	5,353	7.75 %	6,568	6,739
The Baltic States	7.89 %	2,607	2,674	8.44 %	2,748	2,814
Canada	%			7.28 %	13,163	13,530
USA	8.61 %	251	256	8.56 %	1,669	1,709
<b>Overall</b>	<b>7.08 %</b>	<b>\$ 19,764</b>	<b>\$ 20,344</b>	<b>7.08 %</b>	<b>\$ 38,821</b>	<b>\$ 39,976</b>

The Company has determined, based on the capitalization rates used, that an increase (decrease) in the net operating income of \$1,000 in any geographic segment would result in an increase (decrease) in the fair value for that segment ranging between \$11,614 and \$15,809 (December 31, 2009 - between \$11,683 and \$17,112).

Investment properties include one property (December 31, 2009 - one property) with a fair value of \$592,540 (December 31, 2009 - \$676,850) where there is a purchase option exercisable by the tenant in 2020 for EUR €282 million.

**11. Accounts payable and other liabilities**

	<u>2010</u>	<u>2009</u>
<b>Current amounts</b>		
Payables	\$ 71,321	\$ 93,531
Non-construction demand loans (a) (Note 23k)	12,921	74,310
Notes payable	147	2,999
Prepaid rents and deposits	7,893	13,446
Security deposits	1,226	732
Homburg Capital Securities A (Note 17)	1,000	2,760
Shareholders of DIM Vastgoed N.V., due October 2010		2,987
Related party payable (Note 23b, f & g)	8,275	5,126
	<u>\$ 102,783</u>	<u>\$ 195,891</u>
<b>Non-current amounts</b>		
Long term payables (b)	\$ 10,340	\$ 11,732
Homburg Capital Securities A (Note 17)		1,106
	<u>\$ 10,340</u>	<u>\$ 12,838</u>

The Company has available credit facilities of \$20,000 (December 31, 2009 - \$78,000) of which \$4,582 (December 31, 2009 - \$63,000) is being utilized at December 31, 2010. Of these facilities, \$15,000 (December 31, 2009 - \$15,000) is with a company controlled by the former Chairman and Chief Executive Officer and is undrawn at December 31, 2010.

- a) Non-construction demand loans consist of the following:
- i) Operating lines of credit provided by a chartered bank totalling \$4,582.
  - ii) A promissory note payable plus interest in the amount of EUR €6,291 (\$8,339), bearing interest at 6.0% per annum. This amount is payable to a related party, has no specific repayment terms and relates to the Company's investment in HEEF B.V. (Note 23k).
- b) The long term payables include EUR €7,800 (\$10,340) (December 31, 2009 - EUR €7,800 (\$11,732)) representing the purchase price on the remaining 6.63% of MoTo Objekt Campeon GmbH & Co KG to be acquired in the first quarter of 2012.

**12. Provisions**

Provisions of \$27,209 (December 31, 2009 - \$34,089) relate to onerous operating lease obligations with respect to head leases which commenced during 2010 (Note 24a). The provisions include a discount rate adjustment of \$3,111. The provisions are calculated based on:

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

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**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 5.47% (December 31, 2009 - 3.88%). The Company has pledged its development properties as collateral.

**14. Long term debt**

	<b>2010</b>	<b>2009</b>
Secured debt		
Mortgages (a)	\$ 1,034,108	\$ 1,944,686
Mortgage bonds (b)	<u>135,846</u>	<u>195,274</u>
	<u><b>1,169,954</b></u>	<u><b>2,139,960</b></u>
Unsecured debt		
Corporate non-asset backed bonds (c)	<u>410,963</u>	466,302
Junior subordinated notes (d)	<u>53,145</u>	<u>58,591</u>
	<u><b>464,108</b></u>	<u><b>524,893</b></u>
	<u><b>1,634,062</b></u>	<u><b>2,664,853</b></u>
Less: Deferred financing charges, net of accumulated amortization of \$14,881 (December 31, 2009 - \$14,457)	<u>(15,554)</u>	<u>(23,129)</u>
	<u><b>1,618,508</b></u>	<u><b>2,641,724</b></u>
Less: current portion	<u><b>185,168</b></u>	<u><b>624,284</b></u>
<b>Long term debt</b>	<u><b>\$ 1,433,340</b></u>	<u><b>\$ 2,017,440</b></u>

**a) Mortgages**

Long term debt has both fixed and variable interest rates. At period end the contractual weighted average interest rate for variable rate long term debt was 1.81% and for fixed rate long term debt was 6.08% (December 31, 2009 - variable - 1.79%, fixed - 6.00%). Scheduled principal installments and principal maturities on long term debt are as follows:

	<b>Mortgages</b>		<b>Bonds and Junior Subordinated Notes</b>	<b>Total</b>	<b>Weighted Average Interest Rate of Maturing Debt</b>
	<b>Normal Principal Installments</b>	<b>Principal Maturities</b>			
Within 1 year	\$ 22,451	\$ 56,522	\$ 106,195	\$ 185,168	6.52%
1-2 years	22,780	96,933	82,797	202,510	5.78%
2-3 years	21,527	47,236	145,828	214,591	5.85%
3-4 years	20,142	77,193	132,567	229,902	6.36%
4-5 years	16,225	36,827	132,567	185,619	6.64%
Later		616,272		616,272	3.82%
	<u><b>\$ 103,125</b></u>	<u><b>\$ 930,983</b></u>	<u><b>\$ 599,954</b></u>	<u><b>\$ 1,634,062</b></u>	

Specific investment properties and properties under development for resale with a fair market value of \$1,476,886 (December 31, 2009 - \$1,856,164) and an assignment of specific leases have been pledged as collateral for mortgages and for mortgage bonds payable. Included in mortgages are the following foreign denominated amounts, translated at period end exchange rates:

		<b>2010</b>	<b>2009</b>
US dollar denominated	USD	\$ <u><b>6,998</b></u>	\$ <u><b>90,861</b></u>
	CAD	\$ <u><b>7,000</b></u>	\$ <u><b>95,349</b></u>
EURO denominated	EUR	€ <u><b>756,783</b></u>	€ <u><b>843,708</b></u>
	CAD	\$ <u><b>1,003,192</b></u>	\$ <u><b>1,269,021</b></u>

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**14. Long term debt (cont.)**

**b) Mortgage bonds payable**

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
HMB2	April 25, 2010	7.50%	EUR €Nil	EUR €24,000		\$ 36,098
HMB4	Nov. 30, 2011	7.50%	EUR €20,010	EUR €20,010	26,525	30,097
HMB5	Dec. 31, 2011	7.50%	EUR €20,010	EUR €20,010	26,525	30,097
HMB6	June 30, 2012	7.50%	EUR €31,230	EUR €31,230	41,398	46,973
HMB7	June 30, 2012	7.25%	EUR €31,230	EUR €31,230	41,398	46,973
					<u>135,846</u>	<u>190,238</u>
Currency guarantee payable						<u>5,036</u>
					<u>\$ 135,846</u>	<u>\$ 195,274</u>

The mortgage bonds are seven year bonds issued in series and secured by a first or second charge over specific assets and a corporate guarantee.

The bonds mature between November 2011 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 previously entered into guarantee arrangements on all series of mortgage bonds, with a company under the control of the former Chairman and Chief Executive Officer. Under the terms of the guarantee, the Company was protected from devaluation of the Canadian dollar against the Euro, to a maximum limit equal to the face value of each mortgage bond, and had relinquished any appreciation rights which have arisen on the future settlement of its Euro denominated Mortgage Bonds. This contract was cancelled on December 6, 2011. The Mortgage Bonds are recorded at the prevailing exchange rate at December 31, 2010.

**c) Corporate non-asset backed bonds**

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
HB8	May 31, 2013	7.00%	EUR €50,010	EUR €50,010	\$ 66,293	\$ 75,219
HB9	October 31, 2013	7.00%	EUR €60,000	EUR €60,000	79,536	90,246
HB10	February 15, 2014	7.25%	EUR €100,005	EUR €100,005	132,567	150,418
HB11	January 15, 2015	7.25%	EUR €100,005	EUR €100,005	132,567	150,418
					<u>\$ 410,963</u>	<u>\$ 466,301</u>

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. In December 2010, the holders of Corporate non-asset backed bonds 8 through 11 agreed to allow the Company, at its option, to renew the bonds prior to the maturity, and to allow the Company to exchange the bonds for other security such as Homburg Capital Security A. Acceptance of this exchange is at the bondholders option.

**d) Junior subordinated notes**

The junior subordinated notes consist of EUR €25,000 (\$33,141) (December 31, 2009 - EUR €25,000 (\$37,603)) and USD \$20,000 (\$20,004) (December 31, 2009 - USD \$20,000 (\$20,988)) and require interest only payments until maturity in 2036. The notes carry a fixed interest rate until 2016 and variable thereafter. The Company has a redemption option effective in 2011 until maturity. The outstanding balances are translated at period end exchange rates. The notes have a financial covenant which require the Company to maintain a certain minimum rolling four-quarter interest coverage ratio, and a net worth covenant ratio, as calculated using the Company's consolidated financial statements prepared in accordance with IFRS. The interest coverage ratio and net worth covenant ratio were in default during 2009 and 2010 and were waived. Subsequent to year end (Note 29 (c)) the Company arranged new thresholds for the interest coverage and tangible net worth covenants. The Company anticipates it will be below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment.

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**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 income before income taxes, resulting from the following items:

	<u>2010</u>	<u>2009</u>
Income (loss) from continuing operations before income taxes	\$ <u>49,520</u>	\$ <u>(445,359)</u>
Combined Canadian federal and provincial statutory income tax rate	32.00 %	32.25 %
Income tax expense (recovery) at the above tax rate	\$ 15,846	\$ (143,628)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains and market value changes	(3,805)	(4,467)
Provincial capital tax	332	246
Benefit of previously unrecognized deferred income tax asset	(2,845)	(20,405)
Reversal of previously recognized deferred income tax assets	21,986	
Benefit of current year tax losses not recognized	29,179	40,995
Effect of rate change on temporary differences	3,008	7,533
Deferred income tax asset not previously recognized on sale of subsidiary	(34,292)	
Effect of difference in statutory tax rates of subsidiaries	1,040	33,041
Other	748	3,203
<b>Income tax expense (recovery)</b>	<b>\$ <u>31,197</u></b>	<b>\$ <u>(83,482)</u></b>
Comprised of:		
Current income tax (recovery)	(11,597)	(4,376)
Deferred income tax (recovery)	42,794	(79,106)
	<b>\$ <u>31,197</u></b>	<b>\$ <u>(83,482)</u></b>

Deferred income tax assets (liabilities) represent the temporary differences between the tax basis of assets and liabilities and the carrying amount of assets and liabilities for financial reporting purposes. Deferred tax assets and liabilities are netted in the consolidated balance sheet to the extent they relate to the same fiscal entity, tax group, or taxation jurisdiction. The significant components are as follows:

	<u>2010</u>	<u>2009</u>	<u>Income Statement 2010</u>	<u>OCI <sup>(1)</sup> 2010</u>	<u>Discontinued Operations 2010</u>	<u>Other <sup>(2)</sup> 2010</u>
<b>Deferred tax assets</b>						
Loss carry forwards	\$ 17,442	\$ 26,957	\$ (8,036)	\$ (7,920)	\$ 6,441	\$
Deferred revenues and costs	6,071	10,506	(4,453)	18		
Unrealized losses	7,136	28,629	(11,661)	(9,028)		(803)
	<u>30,649</u>	<u>66,092</u>	<u>(24,150)</u>	<u>(16,930)</u>	<u>6,441</u>	<u>(803)</u>
<b>Deferred tax liabilities</b>						
Homburg Capital Securities A	(11,342)	(9,570)	(858)			(914)
Investment in associate	(15,735)		4,230		(19,965)	
Investment properties	(35,311)	(61,281)	(22,017)	18,422	31,131	(1,565)
	<u>(62,388)</u>	<u>(70,851)</u>	<u>(18,645)</u>	<u>18,422</u>	<u>11,166</u>	<u>(2,479)</u>
<b>Net deferred tax asset (liability)</b>	<b>\$ <u>(31,739)</u></b>	<b>\$ <u>(4,759)</u></b>	<b>\$ <u>(42,795)</u></b>	<b>\$ <u>1,492</u></b>	<b>\$ <u>17,607</u></b>	<b>\$ <u>(3,282)</u></b>

(1) Other Comprehensive Income (loss)

(2) Includes reclassification of available for sale investment (Note 16), Homburg Capital Securities A (Note 17) and contributed surplus.

The net deferred tax liability is disclosed as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax asset	\$ 8,316	\$ 26,715
Deferred tax liability	(40,055)	(31,474)
	<b>\$ <u>(31,739)</u></b>	<b>\$ <u>(4,759)</u></b>

In 2009, the Company considered it probable that the benefit of a previously unrecognized deferred 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, would be utilized. The income tax benefit recognized is \$20.4 million. The remaining unrecognized deferred income tax asset of \$25.8 million has not been recognized as it was not probable that it would be utilized.

The Company has non-capital loss carryforwards of \$200,402. These expire as follows: \$29,036 in 2027; \$126,017 in 2028, \$37,497 in 2029 and \$7,852 in 2030. A benefit relating to non-capital losses of \$26,255 has been recognized. The Company has capital loss carryforwards of \$349,215 with no expiry. A benefit relating to capital losses of \$74,855 has been recognized. The Company also has foreign tax credits of \$3,990 which expire between 2014 and 2020, the benefit of which has not been recognized.

The Company has approximately \$152,000 of taxable temporary differences associated with investments in subsidiaries for which no deferred taxes have been provided on the basis that the Company is able to control the timing of the reversal of such temporary differences and such reversal is not probable in the foreseeable future.

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**16. Discontinued operations**

During 2009, the Company outlined a strategy to spin off assets into four geographically based companies and a development company. On May 25, 2010 the Company completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to HCREIT for cash proceeds of \$114,511, units in HCREIT at a fair value of \$143,139 plus a bargain purchase gain of \$69,380 resulting in a pre-tax loss of \$150,962. The following represents the income statement amounts associated with the sale plus certain other Canadian investment properties held for sale from December 31, 2009 and presented as discontinued.

	<u>2010</u>	<u>2009</u>
<b>Income statement</b>		
Property revenue	\$ 57,773	\$ 147,203
Property operating expenses	<u>30,072</u>	<u>67,246</u>
Gross income from operations	27,701	79,957
Other income	700	93
Interest expense	(13,000)	(36,356)
General and administrative	(3,526)	(9,846)
Fair value adjustment on investment properties	17,241	(132,734)
Loss on sale of assets	<u>(775)</u>	<u>(6,739)</u>
Net income (loss) from discontinued operations before income taxes	28,341	(105,625)
Current income tax recovery		(1,788)
Deferred income tax expense (recovery)	<u>7,477</u>	<u>(16,452)</u>
	20,864	(87,385)
Loss on disposal of discontinued operations	(158,943)	
Deferred tax recovery	<u>(31,702)</u>	
Net loss from discontinued operations after tax	<u>\$ (106,377)</u>	<u>\$ (87,385)</u>

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

	<u>2010</u>	<u>2009</u>
<b>Assets and liabilities held for sale</b>		
Investment properties	\$ 139,434	\$ 66,365
Restricted cash	485	5,324
Cash	2,067	
Deferred income tax asset	1,565	
Receivable and others	<u>696</u>	<u>1,268</u>
	<u>\$ 144,247</u>	<u>\$ 72,957</u>
Long term debt	\$ 90,431	\$ 21,030
Deferred income tax liabilities		6,618
Income taxes payable		14,552
Accounts payable	<u>1,558</u>	<u>1,158</u>
	<u>\$ 91,989</u>	<u>\$ 43,358</u>
<b>Statement of cash flows</b>		
Operating activities	<u>\$ 3,744</u>	<u>\$ 3,522</u>
Investing activities	<u>\$ 103,332</u>	<u>\$ (24,969)</u>
Financing activities	<u>\$ 5,389</u>	<u>\$ 32,724</u>

Included in other comprehensive income is a loss an amount of \$2,389 relating to the foreign assets held for sale.

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**17. Shareholders' equity**

	<u>2010</u>	<u>2009</u>
Deficit	\$ (649,316)	\$ (558,129)
Accumulated other comprehensive income (a)	<u>1,190</u>	<u>19,224</u>
	<u>(648,126)</u>	<u>(538,905)</u>
Share capital (b)	701,034	691,785
Other paid in capital (d)	29,171	34,435
Contributed surplus (f)	<u>14,665</u>	<u>12,756</u>
	<u>\$ 96,744</u>	<u>\$ 200,071</u>

**a) Accumulated other comprehensive income**

	<u>2010</u>	<u>2009</u>
Net unrealized foreign currency translation gains (loss)	\$ 4,597	\$ 23,890
Change in fair value of available for sale financial assets		231
Deferred tax expense	<u>(3,407)</u>	<u>(4,897)</u>
	<u>\$ 1,190</u>	<u>\$ 19,224</u>

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

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

The following are rates of exchange in effect:

	<u>\$1.00 USD</u>	<u>€1.00 EUR</u>
<b>December 31, 2010</b>	\$ 1.00020	\$ 1.32560
December 31, 2009	\$ 1.04940	\$ 1.50410
<b>Average rate for 2010</b>	\$ 1.03075	\$ 1.36843
Average rate for 2009	\$ 1.14172	\$ 1.58706

**b) Share capital**

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

	<b>Class A Subordinate Voting Shares (000's)</b>	<b>Class B Multiple Voting Shares (000's)</b>	<b>Share Capital</b>
<b>Issued and outstanding at December 31, 2008</b>	16,790	3,151	\$ 698,535
Shares acquired under Normal Course Issuer Bid	<u>(171)</u>	<u>(2)</u>	<u>(6,750)</u>
<b>Issued and outstanding at December 31, 2009</b>	16,619	3,149	691,785
Shares acquired under Normal Course Issuer Bid	<u>(46)</u>	<u>(36)</u>	<u>(2,240)</u>
Shares issued re DIM 2010	<u>476</u>		<u>11,489</u>
<b>Issued and outstanding at December 31, 2010</b>	<u><b>17,049</b></u>	<u><b>3,113</b></u>	<u><b>\$ 701,034</b></u>

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.

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**17. Shareholders' equity (cont.)**

**b) Share capital (cont.)**

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

**c) Normal Course Issuer Bid ("NCIB")**

On August 23, 2010, the Company announced plans, under an approved NCIB, to acquire up to 1,017,201 Class A Subordinate Voting shares and 157,426 Class B Multiple Voting shares over a one year period ending August 24, 2011. The NCIB enabled the Company to acquire up to 1,000 Class A Shares and up to 1,000 Class B Shares on any given trading day. Any shares acquired by the Company under the NCIB were cancelled. During the year ended December 31, 2010, the Company acquired and cancelled 46,300 Class A Shares at an average cost of \$4.81 per share, and 35,700 Class B Shares at an average cost of \$5.43 per share. Class A and Class B shares acquired are being cancelled and removed from share capital at the average issue price at the time of acquisition. The discount on repurchases made to date of \$1,821 is credited to contributed surplus.

**d) Other paid in capital**

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	34,435	11,489
Issue of shares re DIM 2010	(11,489)	
Homburg Capital Securities A:		
Equity component, net of tax	6,350	24,147
Deferred transaction costs	(125)	(1,201)
<b>Balance, end of year</b>	<u>\$ 29,171</u>	<u>\$ 34,435</u>

During the year ended December 31, 2010, the Company issued EUR €3,217 (\$4,598) (December 31, 2009 - €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. 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; have 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 holder's 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.



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**17. Shareholders' equity (cont.)**

The Company has determined that the expected life of the HCSA is 50 years through March 31, 2059. The proceeds received on issuance during the year ended December 31, 2010 have been allocated to three components:

- The Company has recognized a liability of EUR €15 (\$21) (December 31, 2009 - €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 €309 (\$442) (December 31, 2009 - €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 €2,891 (\$4,135) (December 31, 2009 - €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. 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 net income 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**

	<b>2010</b>		<b>2009</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
	<b>(000's)</b>	<b></b>	<b>(000's)</b>	<b></b>
Outstanding at beginning of year	929	\$ 52.50	929	\$ 52.50
Expired	(184)	45.82		
Outstanding at end of year	<u>745</u>	<u>\$ 54.16</u>	<u>929</u>	<u>\$ 52.50</u>

<b>Date of Grant</b>	<b>Expiration Date</b>	<b>Exercise Price</b>	<b>Class A Subordinate Voting Shares Under Option (000's)</b>	<b>Class A Subordinate Voting Shares Fully Vested (000's)</b>
July 16, 2007	July 15, 2012	\$56.80	643	643
June 27, 2008	June 26, 2013	\$37.60	102	77
			<u>745</u>	<u>720</u>

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, 2010, and December 31, 2009 there were no Class B Multiple Voting Share Options granted and there were 745 Class A Subordinate Voting Share Options granted and unexercised (719 fully vested and exercisable).

The fair value of each option grant is estimated on the date of grant using the Binomial or similar option pricing model. The fair value of each option granted was estimated using the exercise price and the following weighted average assumptions for all outstanding options: Expected volatility 30.0 - 40.0%; Risk free interest rate 3.31 - 4.60%; Expected dividend yield 5.6 - 13.0%; Expected life 3.5 - 5 Years. The compensation cost that has been expensed against income in 2010 is \$88 (December 31, 2009 - \$146).



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**f) Contributed surplus**

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 12,756	\$ 7,206
Acquisition and cancellation of Class A shares	1,821	5,404
Stock based compensation	88	146
Equity contribution (net of tax) (Note 23j)	4,932	
Balance, end of year	<u>\$ 19,597</u>	<u>\$ 12,756</u>

The Company's contributed surplus balance applies to:

Class A stock option expense	\$ 6,186	\$ 6,098
Equity contribution (net tax)	4,932	
Discount on cancellation of Class A Shares	8,479	6,658
	<u>\$ 19,597</u>	<u>\$ 12,756</u>

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

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

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

	<u>2010</u> <u>(000's)</u>	<u>2009</u> <u>(000's)</u>
<b>Basic and Diluted</b>		
Class A Subordinate Voting	17,036	16,679
Class B Multiple Voting	<u>3,141</u>	<u>3,149</u>
	<u>20,177</u>	<u>19,828</u>

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

Net loss	\$ (88,054)	\$ (449,262)
Homburg Capital Securities equity accretion (Note 17 (d))	<u>(3,133)</u>	<u>(1,627)</u>
	<u>\$ (91,187)</u>	<u>\$ (450,889)</u>

The Company incurred a loss during the years ended December 31, 2010 and 2009, 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.

**19. Gain on disposal of subsidiary**

During the fourth quarter the Company sold a subsidiary which included investment property, long term debt and working capital for a net gain of \$107,164. The net gain also includes a realized foreign currency gain in the amount of \$21,244 that has been recycled from other comprehensive income.

**20. Supplemental cash flow information**

	<u>2010</u>	<u>2009</u>
Change in non-cash working capital and other:		
Receivables and other	\$ (4,423)	\$ (16,915)
Accounts payable and other liabilities	(24,245)	(11,806)
Proceeds exceeding earnings on development properties for resale	<u>6,314</u>	<u>120,032</u>
	<u>\$ (22,354)</u>	<u>\$ 91,311</u>
Interest paid	<u>\$ 122,290</u>	<u>\$ 132,184</u>
Interest capitalized	<u>\$ 16,953</u>	<u>\$ 17,647</u>
Capital and income taxes paid	<u>\$ 8,793</u>	<u>\$ 1,431</u>

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**21. 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.

<b>Classification</b>	<b>Subsequent Measurement</b>	<b>Carrying Value 2010</b>	<b>Fair Value 2010</b>	<b>Carrying Value 2009</b>	<b>Fair Value 2009</b>
<b>Available for Sale</b>					
Long term investments -DEGI L.P. (a)	Fair value (L2)	\$ <u>          </u>	\$ <u>          </u>	\$ <u>13,059</u>	\$ <u>13,059</u>
<b>Held for Trading</b>					
Long term investments - others	Fair value (L1)	\$ <u>1,643</u>	\$ <u>1,643</u>	\$ <u>6,278</u>	\$ <u>6,278</u>
Long term investments -HEEF B.V. (b)	Fair value (L3)	<u>7,221</u>	<u>7,221</u>	<u>8,605</u>	<u>8,605</u>
Cash and cash equivalents (c)	Fair value (L1)	<u>13,617</u>	<u>13,617</u>	<u>32,569</u>	<u>32,569</u>
Currency guarantee payable (c)	Fair value (L2)			<u>(5,036)</u>	<u>(5,036)</u>
Derivative instrument liability (c)	Fair value (L2)	<u>(21,847)</u>	<u>(21,847)</u>	<u>(24,045)</u>	<u>(24,045)</u>
		\$ <u>634</u>	\$ <u>634</u>	\$ <u>18,371</u>	\$ <u>18,371</u>
<b>Loans and Receivables</b>					
Restricted cash (d)	Amortized cost	\$ <u>4,088</u>	\$ <u>4,088</u>	\$ <u>23,159</u>	\$ <u>23,159</u>
Receivables and other (d)	Amortized cost	<u>36,025</u>	<u>36,025</u>	<u>49,639</u>	<u>49,639</u>
		\$ <u>40,113</u>	\$ <u>40,113</u>	\$ <u>72,798</u>	\$ <u>72,798</u>
<b>Other Financial Liabilities</b>					
Accounts payable and other (d)	Amortized cost	\$ <u>113,123</u>	\$ <u>113,123</u>	\$ <u>208,729</u>	\$ <u>208,729</u>
Mortgages (e)	Amortized cost	<u>1,034,108</u>	<u>1,013,013</u>	<u>1,944,686</u>	<u>2,003,657</u>
Mortgage bonds (e)	Amortized cost	<u>135,846</u>	<u>138,013</u>	<u>190,238</u>	<u>207,943</u>
Corporate non-asset backed bonds (e)	Amortized cost	<u>410,963</u>	<u>413,813</u>	<u>466,302</u>	<u>462,136</u>
Junior subordinated notes (e)	Amortized cost	<u>53,145</u>	<u>75,418</u>	<u>58,591</u>	<u>88,082</u>
Deferred financing charges (e)	Amortized cost	<u>(15,554)</u>		<u>(23,129)</u>	
Construction financing (d)	Amortized cost	<u>40,231</u>	<u>40,231</u>	<u>94,999</u>	<u>94,999</u>
		\$ <u>1,771,862</u>	\$ <u>1,793,611</u>	\$ <u>2,940,416</u>	\$ <u>3,065,546</u>

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

(a) The investment in DEGI L.P. represents 10% of the limited partnership units. This investment was sold as part of the HCREIT transaction.

(b) Long term investments are classified as held for trading and carried at their fair values. The fair value of the Company's investment in HEEF B.V. is based on the proportionate share of the reported net asset value of the B.V.. HEEF B.V. prepares its financial statements in accordance with IFRS using the fair value model. As such, the net asset value from the financial statements of the B.V. is reflective of its fair value. Management has determined that a reasonably possible change in the assumptions used to determine the fair value of the Company's investment in HEEF B.V. would not result in a significant impact to the consolidated financial statements. The fair values of other long term investments are based on quoted market prices. A gain of \$88 resulting from the change in fair values of investments was recorded in the consolidated income statement during the twelve months ended December 31, 2010 (2009 - loss of \$1,187).

(c) Cash and cash equivalents, the currency guarantee payable and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$677 during the twelve months ended December 31, 2010 in the consolidated income statement (2009 - loss of \$7,486).

(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, 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.

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**21. Financial instruments and risk management (cont.)**

**Financial instruments (cont.)**

**Risk management**

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

**a) Liquidity risk**

Liquidity risk relates to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long term debts as they come due. As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. 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 ratio, net worth, 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 lower real estate values. The Company is significantly levered with a debt to equity ratio of 16.55:1 at December 31, 2010 (December 31, 2009 - 14.14:1) (long term debt, construction financing, long term payables and demand loans + shareholders' equity). For the twelve months ended December 31, 2010, Homburg Invest had total interest expense coverage from continuing operations of 0.84:1 (December 31, 2009 - 1.04:1) (calculated as property revenue, less property operating expenses and general and administrative expenses + interest expense (excluding capitalized interest)).

The Company completed the creation of the HCREIT to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt through an IPO that closed on May 25, 2010. Cash proceeds from the IPO of approximately \$114.5 million were utilized to reduce debt and satisfy other obligations. The following table presents the Company's contractual obligations at December 31, 2010:

**Contractual Obligation**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Later</b>
Head and ground leases	\$ 14,876	\$ 14,876	\$ 15,088	\$ 15,725	\$ 15,057	\$ 159,586
Mortgages: Normal principal installments (i)	22,451	22,780	21,527	20,142	16,225	
Interest (i)	49,868	42,634	39,688	35,419	32,175	
Principal maturities (iii)	56,522	96,933	47,236	77,193	36,827	616,272
Bonds and junior subordinated notes:						
Interest (i)	44,740	40,305	31,989	20,820	8,552	
Principal maturities (ii)	106,195	82,797	145,828	132,567	132,567	
Non construction demand loans (vi)	12,921					
Construction financing (v)	40,231					
Construction purchase obligations (v)	6,443					
Other current and long term payables	1,000		10,340			
Working capital deficit (vi)	46,414					
	<b>\$ 401,661</b>	<b>\$ 300,325</b>	<b>\$ 311,696</b>	<b>\$ 301,866</b>	<b>\$ 241,403</b>	<b>\$ 775,858</b>

The Company's derivative instrument liability of \$21,847 has been excluded from the above table as this liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which is 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 \$22,451; interest on mortgages and mortgage bonds of \$49,868; interest on corporate non asset backed bonds and junior subordinated notes of \$44,740; capital spending requirements on the income property portfolio, expected to approximate \$3 million; and operating and head lease commitments of \$14,876. Sources of finance towards these obligations include: cash on hand of \$13,617; net cash flow from operating activities before interest expense unrelated to development activities; cash generated from continued sales of completed condominium development projects; the potential sale of development and/or income producing properties, subject to reasonable prices being attained; the potential upward refinancing on certain mortgages and bonds and distributions received from the HCREIT.
- (ii) Through June 2012, the Company faces maturities of its mortgage bonds totalling €100,000 (\$135,848), in addition to regularly scheduled principal payments and maturities related to other mortgage debts. The Company will seek to extend the maturity or otherwise refinance amounts due on its mortgage bonds through the issue of new mortgage bonds. However, there is no certainty that these efforts will be successful. The Company could meet any shortfall in the refinancing program through the sale of development assets, income producing properties, or additional units of HCREIT. However, the Company's liquidity needs may limit its ability to maximize the price to be realized on such asset sales.

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**21. Financial instruments and risk management (cont.)**

- (iii) Mortgage principal maturities falling due in 2011 total \$56,522, of which \$7,444 has been repaid subsequent to year end and \$36,624 is expected to be renewed at terms similar to those currently in place. The remaining \$19,879 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. The fair value of the investment property provided as security for this loan was \$17,418 at December 31, 2010. Subsequent to year end, the Company temporarily ceased making scheduled principal payments of €244 (\$323) on four mortgages totalling €44,276 (\$62,669) with property fair values of €44,740 (\$59,307), at December 31, 2010 related to certain underperforming properties in the Netherlands. The lenders' recourse in respect of these property mortgages is limited to the assets of the limited partnerships holding these loans. The Company is in discussions to renegotiate the amortizations of these loans with the lenders. All interest payments are current.
- (vi) The Company's non construction demand loans of \$12,921 are secured by first or second charges over various investment properties not to exceed 65% of fair value.
- (v) The Company has \$254,295 invested in investment properties under development and properties under development for resale that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling \$40,231 at December 31, 2010. 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 \$6,443. 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. For properties under development for resale, 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 and/or fair value adjustments.
- (vi) The working capital deficit of \$46,414 consists of cash \$13,617, trade receivables \$27,955, and related party receivable \$7,409 less payables \$71,321, income taxes payable \$8,243, related party payable of \$8,275 and notes payable \$147, and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.
- (vii) The Company's junior subordinated notes, with a principal balance of \$53,145, were in default of the interest coverage ratio and the net worth covenant ratio during the period ended December 31, 2010, however a waiver from the lender was obtained. Subsequent to year end, the Company has agreed to new covenant terms to replace the waiver. However, the Company anticipates it will be below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment. Accordingly, these principal maturities have been classified as falling due within 2011.

Should the above efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell additional development and/or income producing 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.

**b) Interest rate risk**

As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$1,359,398 in fixed rate debt and \$326,694 in floating rate debt (before deferred financing charges) including \$52,030 in demand and short term loans which are repayable in less than one year. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €148,283 (\$196,564) (December 31, 2009 - EUR €159,906 (\$240,515)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the year ended December 31, 2010, the impact on the consolidated income statement is a loss of \$677 (December 31, 2009 - loss of \$7,486). 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 \$2,222 in the Company's earnings as a result of the impact on floating rate borrowings.

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**21. Financial instruments and risk management (cont.)**

**c) Credit risk**

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$9,826 (December 31, 2009 - \$20,064) 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 36.8% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75,000 (\$99,420) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company seeks replacement tenants. The Company's receivables are comprised primarily of current balances owing. The Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. The remaining significant receivables consist of taxes recoverable from various government agencies and revenue from the sale of development properties. The amounts due from government agencies represent current recoverable amounts and the revenue from the sale of development properties is supported by security letters of credit issued by the purchaser.

**d) Currency risk**

Currency risk arises from assets and liabilities denominated in US dollars or Euros. The Company has 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, 2010, EUR €234,340 (\$310,641) (December 31, 2009 - €234,340 (\$352,471)) 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, 2010 and December 31, 2009, 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 \$(2,287) and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9,014 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 \$344 and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1,360 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 36.8% (December 31, 2009 - 34.3%) of property revenue for the year. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The property leased to this tenant has a fair market value of \$592,540 at December 31, 2010 (December 31, 2009 - \$676,850). 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.

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**22. Capital management**

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

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

	<u>2010</u>	<u>2009</u>
Debt-to-equity ratio	16.55 : 1	14.14 : 1
Interest expense coverage ratio	0.84 : 1	1.04 : 1

	<u>2010</u>	<u>2009</u>
Debt is calculated as follows:		
Long term debt	\$ 1,618,508	\$ 2,641,724
Construction financing	40,231	94,999
Homburg Capital Securities A	1,000	3,866
Long term payables	10,340	11,732
Due to DIM shareholders		2,987
Non-construction demand loans	12,921	74,310
	<u>\$ 1,683,000</u>	<u>\$ 2,829,618</u>
Shareholders' equity	<u>\$ 101,676</u>	<u>\$ 200,071</u>
Interest expense	<u>\$ 110,648</u>	<u>\$ 125,142</u>
Property revenue	\$ 133,004	\$ 177,469
Property operating expenses	(25,628)	(33,237)
General and administrative	(14,820)	(14,238)
	<u>\$ 92,556</u>	<u>\$ 129,994</u>

**23. Related party transactions**

The Company's direct parent is Homburg Finance A.G., which is controlled by the former Chairman and Chief Executive Officer.

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

	<u>2010</u>	<u>2009</u>
Rental revenue earned	\$ (482)	\$ (788)
Interest income (h)	\$ (574)	\$ (768)
Management agreement termination fee (o)	\$ 21,600	\$
Asset and construction management fees (r)	\$ 8,440	\$ 24,756
Property management fees incurred (r)	\$ 4,784	\$ 6,555
Insurance costs incurred	\$ 514	\$ 1,281
Service fees incurred	\$ 4,915	\$ 6,489
Property acquisition/disposal fees incurred (r)	\$ 1,302	\$ 1,065
Mortgage bond guarantee fees incurred (j)	\$ 17,134	\$ 2,898
Bond and other debt issue costs incurred	\$ 209	\$ 1,434
Interest costs incurred (g) (h) (k)	\$ 276	\$ 2,798



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

- b) Included in trade payables is \$405 (accounts payable - December 31, 2009 - \$2,776) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- c) Included in restricted cash and accounts payable is a deposit on a condominium unit of \$355 (December 31, 2009 - \$355) from the former 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 former 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 \$305 (December 31 2009 - \$294) were purchased from a corporation of which one of the Company's directors is affiliated.
- f) Included in accounts payable and other liabilities is \$21,892 (December 31, 2009 - \$198) with companies commonly controlled by the former Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
- g) Previously included in accounts payable and other liabilities and paid out in the fourth quarter (December 31, 2009 - EUR €2,376 (\$3,573)), was a demand note payable to a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 5.619% per annum.
- h) Previously included in accounts payable and other liabilities and paid out in the fourth quarter (December 31, 2009 - USD \$1,291 (\$1,355)), was a demand note payable to a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 6.00% per annum.
- i) Previously included in accounts receivable and received in the fourth quarter (December 31, 2009 - EUR €6,795 (\$10,220)) was a demand note receivable from a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 7.25% per annum.
- j) The Company has ended a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the former Chairman and Chief Executive Officer, wherein it was protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum was 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. During the year this contract was cancelled, thus eliminating the Company's liability for \$13,383 representing an approximate discount of 30% from the book value of the liability.
- k) Included in non-construction demand loans is a promissory note payable in the amount of EUR €6,291 (\$8,339) (December 31, 2009 - EUR €7,519 (\$11,310)). This amount relates to the Company's investment in Homburg Eastern European Fund B.V. The note bears interest at 6.0% per annum and has no specific repayment terms.
- l) During the year the Company acquired a company commonly controlled by the former Chairman and CEO, which held €19,785 (\$26,227) in Homburg Bond 11. The bonds have been sold to unrelated third parties during the year.
- m) The Company has entered into head leases with HCREIT. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$1,108. The head leases commenced on May 25, 2010 and have a five year term subject to certain rights of termination upon third party leasing of such space. The Company has \$683 included in property operating expenses for the period ended December 31, 2010.
- n) The Company has entered into a ground lease with HCREIT for a term of 25 years, with an option to renew for up to 3 additional periods of 25 years each. The annual minimum rent payable for the ground lease is \$186. The Company has \$108 included in property operating expenses for the period ended December 31, 2010.

The Company has pledged and hypothecated in favour of HCREIT, Units having an aggregate value of approximately \$6 million as collateral for its obligations under the Head Leases (the "Head Lease Pledge"), and Units having an aggregate value of approximately \$4 million as security for certain of its obligations in connection with remediation costs, if any, on certain income producing properties (the "Remediation Cost Pledge"). The number of Units pledged under the Head Lease Pledge reduces annually by 1/5 of the number of Units pledged. The number of Units pledged under the Remediation Cost Pledge will be reduced from time to time upon payment by the Company to HCREIT of any portion of the remediation costs, if any, it being understood that for each \$10 of the total remediation cost paid to HCREIT, the number of Units pledged under the Remediation Cost Pledge will be reduced by one Unit. Upon payment of the full Remediation Cost, the Company will be fully discharged of its obligations under the Remediation Cost Pledge and any remaining Units will be released from the Remediation Cost Pledge.

- o) As part of the HCREIT launch by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized within HCREIT. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of \$21,600 provided for under the agreement, effective February 25, 2010 and this amount has been included in the loss from discontinued operations.
- p) During the year the Company sold its 50% interest in Homburg SNS Property Finance Limited Partnership at book value to a company commonly controlled by the former Chairman and Chief Executive Officer for \$7,409 in notes receivable.

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

- q) During the quarter the Company paid €813 (\$1,079) for a 10% interest in a real estate fund that is managed by a company commonly controlled by the former Chairman and Chief Executive Officer (Note 6).
- r) **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 former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:

**Property Management Service Fees**

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) 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.

**24. Commitments**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Later</u>
Future minimum lease payments:						
Operating leases of the Company (a)	\$ 13,582	\$ 13,582	\$ 13,794	\$ 14,431	\$ 14,431	\$ 155,978
Headlease commitment Note 23(m)(n)	1,294	1,294	1,294	1,294	626	3,608
	<u>\$ 14,876</u>	<u>\$ 14,876</u>	<u>\$ 15,088</u>	<u>\$ 15,725</u>	<u>\$ 15,057</u>	<u>\$ 159,586</u>

- a) The Company has a headlease obligation and is working towards sub-leasing this space prior to the occupancy date. Any sub-leases will offset the Company's future obligation under the lease commitment. A provision for the estimated amount of the headlease contract which is considered to be onerous has been recorded.
- b) The Company has a headlease obligation related to the investment property owned by DEGI L.P., 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.
- c) The Company and its subsidiaries have entered into various property management agreements, expiring in 2016 (Note 23a).
- d) The Company has construction projects underway to which it has signed commitments of \$6,443.



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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

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**25. 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 (\$14,357) (December 31, 2009 - EUR €10,831 (\$16,291)) and would result in an expense should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 (\$2,386) (December 31, 2009 - EUR €1,800 (\$2,707)); an additional EUR €7,831 (\$10,381) (December 31, 2009 - EUR €7,831 (\$11,779)) was indicated for potential assessment, and to date no additional assessments have been received. The remaining amount of EUR €1,200 (\$1,590) (December 31, 2009 - EUR €1,200 (\$1,805)) 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.

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**26. Rental income under operating leases**

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Later</u>
Future minimum rental income:	\$ <u>106,058</u>	\$ <u>104,123</u>	\$ <u>97,056</u>	\$ <u>94,096</u>	\$ <u>77,417</u>	\$ <u>75,844</u>

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**27. Segmented Information**

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

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

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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

**27. Segmented information (cont.)**

	<u>Germany</u>	<u>Netherlands</u>	<u>Baltic States</u>	<u>North America</u>	<u>Total</u>
<b>Year ended December 31, 2010</b>					
Property revenue	\$ 63,217	\$ 33,204	\$ 18,857	\$ 17,726	\$ 133,004
Operating expenses	<u>4,626</u>	<u>3,888</u>	<u>5,880</u>	<u>11,234</u>	<u>25,628</u>
	<u>\$ 58,591</u>	<u>\$ 29,316</u>	<u>\$ 12,977</u>	<u>\$ 6,492</u>	<u>\$ 107,376</u>
<b>Year ended December 31, 2009</b>					
Property revenue	\$ 89,866	\$ 45,277	\$ 22,089	\$ 18,347	\$ 175,579
Operating expenses	<u>10,309</u>	<u>6,387</u>	<u>6,797</u>	<u>9,170</u>	<u>32,663</u>
	<u>\$ 79,557</u>	<u>\$ 38,890</u>	<u>\$ 15,292</u>	<u>\$ 9,177</u>	<u>\$ 142,916</u>
<b>December 31, 2010</b>					
Investment properties	<u>\$ 748,715</u>	<u>\$ 422,916</u>	<u>\$ 208,258</u>	<u>\$ 21,838</u>	<u>\$ 1,401,727</u>
Mortgages payable	<u>\$ 492,342</u>	<u>\$ 350,911</u>	<u>\$ 159,939</u>	<u>\$ 30,916</u>	<u>\$ 1,034,108</u>
Mortgage bonds payable	<u>\$ 31,082</u>	<u>\$ 36,842</u>	<u>\$</u>	<u>\$ 67,922</u>	<u>\$ 135,846</u>
<b>December 31, 2009</b>					
Investment properties	<u>\$ 872,190</u>	<u>\$ 515,860</u>	<u>\$ 234,725</u>	<u>\$ 1,116,640</u>	<u>\$ 2,739,415</u>
Mortgages payable	<u>\$ 659,609</u>	<u>\$ 400,198</u>	<u>\$ 198,516</u>	<u>\$ 686,363</u>	<u>\$ 1,944,686</u>
Mortgage bonds payable	<u>\$ 34,981</u>	<u>\$ 42,088</u>	<u>\$</u>	<u>\$ 113,169</u>	<u>\$ 190,238</u>

In addition to the above, the North American segment derived revenue from the sale of properties developed for resale of \$15,061 (December 31, 2009 - \$110,274), less costs of development of \$21,369 (December 31 2009 - \$157,657), which resulted in gross loss on sale of properties of \$6,308 (December 31, 2009 - loss of \$47,383). At December 31, 2010, the Germany segment included one (December 31, 2009 - one) tenant that individually represented 36.8% (December 31, 2009 - 34.3%) of the Company's consolidated property revenue for the period. Property operating expenses include \$544 relating to vacant properties (December 31, 2009 - \$252).

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

	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
<b>Year ended December 31, 2010</b>					
Property revenue	\$ 18,730	\$ 16,985	\$ 97,287	\$ 2	\$ 133,004
Operating expenses	<u>5,272</u>	<u>6,079</u>	<u>13,160</u>	<u>1,117</u>	<u>25,628</u>
	<u>\$ 13,458</u>	<u>\$ 10,906</u>	<u>\$ 84,127</u>	<u>\$ (1,115)</u>	<u>\$ 107,376</u>
<b>Year ended December 31, 2009</b>					
Property revenue	\$ 21,218	\$ 36,096	\$ 118,265	\$	\$ 175,579
Operating expenses	<u>5,898</u>	<u>9,370</u>	<u>17,395</u>	<u></u>	<u>32,663</u>
	<u>\$ 15,320</u>	<u>\$ 26,726</u>	<u>\$ 100,870</u>	<u>\$</u>	<u>\$ 142,916</u>
<b>December 31, 2010</b>					
Investment properties	<u>\$ 106,590</u>	<u>\$ 204,230</u>	<u>\$ 1,090,907</u>	<u>\$</u>	<u>\$ 1,401,727</u>
Mortgages payable	<u>\$ 16,055</u>	<u>\$ 159,580</u>	<u>\$ 785,164</u>	<u>\$ 73,309</u>	<u>\$ 1,034,108</u>
Mortgage bonds payable	<u>\$ 4,557</u>	<u>\$ 21,477</u>	<u>\$ 41,890</u>	<u>\$</u>	<u>\$ 67,924</u>
<b>December 31, 2009</b>					
Investment properties	<u>\$ 654,842</u>	<u>\$ 285,154</u>	<u>\$ 1,743,329</u>	<u>\$ 56,090</u>	<u>\$ 2,739,415</u>
Mortgages payable	<u>\$ 350,649</u>	<u>\$ 354,332</u>	<u>\$ 1,147,075</u>	<u>\$ 92,630</u>	<u>\$ 1,944,686</u>
Mortgage bonds payable	<u>\$ 40,982</u>	<u>\$ 34,136</u>	<u>\$ 38,051</u>	<u>\$</u>	<u>\$ 113,169</u>

At December 31, 2010, mortgage bonds payable totalled \$135,846. Of this amount \$67,922 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$67,924 is allocated to specific property classification segments above. At December 31, 2009, mortgage bonds payable totalled \$190,238, exclusive of the currency guarantee receivable 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 property classification segments above.

**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

**28. 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, 2010:

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

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

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 2,556	\$ 3,764
Development properties for resale		22,900
Receivables and other	1,431	3,070
Investment properties, and investment properties under development	<u>125,924</u>	<u>171,157</u>
	<u>\$ 129,911</u>	<u>\$ 200,891</u>
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 963	\$ 5,342
Security deposits and prepaid rent	759	548
Mortgages payable	<u>82,300</u>	<u>146,689</u>
	<u>\$ 84,022</u>	<u>\$ 152,579</u>
<b>Revenue</b>		
Property revenue	\$ 12,900	\$ 14,787
Sale of properties developed for resale	21	3,630
Net adjustment to fair value of investment properties	<u>9,495</u>	<u>(23,294)</u>
	<u>\$ 22,416</u>	<u>\$ (4,877)</u>
<b>Expenses</b>		
Property operating expenses	\$ 3,190	\$ 3,534
Cost of sale of properties developed for resale	16	3,222
General and administrative expenses	154	1,121
Mortgage interest	<u>4,778</u>	<u>5,708</u>
	<u>\$ 8,138</u>	<u>\$ 13,585</u>

**29. Subsequent events**

a) Subsequent to year end, the Company secured a \$10 million operating line secured by units in HCREIT.

b) Subsequent to year end HCREIT completed a public offering of Units on a bought deal basis. The HCREIT issued 8,597,500 units, including 1,447,500 units issued through the exercise of the full over allotment option by the underwriters. Concurrent with the issue of 8,597,500 units by the REIT, the Company also sold 2,500,000 units for gross proceeds of \$28.5 million. The issue by the HCREIT, and the sale by the Company will reduce the voting interest of the Company from 33.7% to approximately 23.1% which will result in a loss of approximately \$11,500. The net proceeds will be utilized to repay the \$10 million outlined in Note a) above, and for general corporate purposes.

c) Subsequent to year end the Company arranged new covenants for the Junior Subordinated notes (Note 14 (d)) of \$53,145. The Company anticipates it will be below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment. As at December 31, 2010 the Junior Subordinated notes are reflected as maturing in 2011. The Company has a redemption option from 2011 to maturity.

d) Subsequent to year end Mr. Richard Homburg, Chairman and CEO and Mr. Richard Stolle, Chief Operating Officer, resigned from Homburg Invest Inc.

e) Subsequent to year end, the Company temporarily ceased making scheduled principal payments of €244 (\$323) on four mortgages totalling €44,276 (\$62,669) with property fair values of €44,740 (\$59,307), at December 31, 2010 related to certain underperforming properties in the Netherlands. The lenders' recourse in respect of these property mortgages is limited to the assets of the limited partnerships holding these loans. The Company is in discussions to renegotiate the amortizations of these loans with the lenders. All interest payments are current.

f) Subsequent to year end the Company agreed, pursuant to the exercise of certain "buy-sell" provisions in certain joint venture agreements with Cedar Shopping Centers, Inc. (NYSE: CDR) ("Cedar"), that the Company will sell its 80% interest in one of the nine properties owned by the Homburg/Cedar joint ventures (Homburg 80%-Cedar 20%) to Cedar. Homburg Invest will also purchase Cedar's 20% interest in the remaining eight joint venture properties. This transaction is expected to close in the second quarter of 2011.

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**Homburg Invest Inc.**  
**Notes to IFRS Consolidated Interim Financial Statements**  
**December 31, 2010 and 2009**

(CAD \$ thousands except per share amounts)

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**30. Staff costs**

The Company has certain management agreements with a related party (Note 23) and did not directly employ any key management employees during 2010 or 2009.

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**31. 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.

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**32. Comparative figures**

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

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**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Year Ended December 31, 2010**

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This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Homburg Invest Inc. ("Homburg Invest", "HII" or the "Company") audited consolidated financial statements and accompanying notes for the year ended December 31, 2010 prepared under International Financial Reporting Standards ("IFRS").

**DATE OF MD&A**

March 31, 2011

**FORWARD LOOKING ADVISORY**

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2010 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.

**OVERVIEW**

In December 2009, Homburg Invest outlined a strategy to spin off assets into four geographically based companies and a development company. We made significant progress during the year and subsequent to year-end.

On May 25, 2010 the Company completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to Homburg Canada Real Estate Investment Trust ("HCREIT") (TSX: HCR.UN).

Funds from operations remained healthy during 2010, a significant result in light of the spinoff of HCREIT. However, global economic and market conditions continued to impact the Company's results. The fluctuation in the Euro against the Canadian dollar and to a lesser extent fluctuations in the US Dollar, all contributed to lower net operating income. Generally poor conditions in Europe also affected vacancies and values. As a result, our net operating income decreased during the year.

Throughout 2010, the Company worked diligently to correct the situation caused when its tenant, Quelle, filed for bankruptcy and vacated the Nurnberg property in Germany a year earlier. The efforts were successful as the Company finalized the sale of its subsidiary that held the Nurnberg property and related debt, resulting in a gain on sale of \$107 million..

During the year, Homburg Invest took several initiatives to reduce its long term debt. It will continue to focus on debt reduction in the year ahead.

The Company's strategic efforts created considerable value. The investment in HCREIT, in which the Company retained a 33.7% equity interest as of December 31, 2010, is now valued at more than the market capitalization of Homburg Invest itself. The results discussed in this MD&A are reflective of the restatement relating to the disposal of the Canadian properties and the subsequent equity pickup of the HCREIT investment.

**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Year Ended December 31, 2010**

**PROPERTIES OWNED**

HII is a public real estate company owning 125 properties with an estimated fair value of \$1.7 billion and 7.5 million square feet of space as at December 31, 2010 in three main asset classes (office, retail, and industrial) and in four main geographical areas (Germany, The Netherlands, the Baltic States (Latvia, Estonia and Lithuania) and North America).

	December 31, 2010 (Millions, except for properties)			December 31, 2009 (Millions, except for properties)		
	Buildings	Fair Value	Gross Sq.Ft.	Buildings	Fair Value	Gross Sq.Ft.
<b>By geographical segment</b>						
Germany	16	\$ 748.7	2.5	18	\$ 872.2	5.1
The Netherlands	32	422.9	3.7	32	515.9	3.7
Baltic States	53	208.3	1.0	53	234.7	1.0
North America	11	21.8	0.3	130	1,116.6	9.9
Sub total	112	1,401.7	7.5	233	2,739.4	19.7
<b>By property type</b>						
Office	77	\$ 1,090.9	5.1	101	\$ 1,743.3	6.8
Retail	7	106.6	0.3	82	654.8	5.8
Residential				12	56.1	0.7
Industrial	28	204.2	2.1	38	285.2	6.4
Sub total	112	1,401.7	7.5	233	2,739.4	19.7
Land and property held for future development (a)	6	107.6		8	117.1	
Construction properties being developed for resale (b)	4	36.9		6	74.0	
Investment property under construction (c)	3	109.8		2	128.8	
<b>Total</b>	<b>125</b>	<b>\$ 1,656.0</b>	<b>7.5</b>	<b>249</b>	<b>\$ 3,059.3</b>	<b>19.7</b>

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

- (a) Land and property held for future development - a 146 acre parcel of land on the outskirts of Calgary, Alberta, 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; 39 acre parcel of land in Calgary, Alberta that the Company intends to develop primarily into approximately 600 single family dwellings; and a 4 story building in Montreal, Quebec.
- (b) Construction properties being developed for resale - 4 condominium units in Calgary, Alberta (Castello); 23 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); 58 condominium units in Grande Prairie, Alberta (Inverness Estates); and 14 condominium units in Charlottetown, Prince Edward Island (Pownell Street).
- (c) Investment property under construction - a parcel of land in Calgary, Alberta that is being developed into a seven building office campus; a parcel of land in Charlottetown, Prince Edward Island that is being developed into a hotel; and a 440 unit condominium complex in Calgary, Alberta (Kai Towers).

**NON-IFRS FINANCIAL MEASURES**

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

- a) NOI is calculated as Property Revenue less Property Operating Expenses.
- b) FFO is presented by the Company as net income (loss) from continuing operations adjusted for deferred and capital income taxes (recovery), unrealized and realized valuation changes, fair value change in financial instruments, loss (gain) on derivative instruments, impairment loss on development properties, foreign exchange loss (gain), changes in provisions, and share of associates net loss (income) net of distributions earned.
- c) FFO per share is calculated as Funds From Operations divided by either the basic or diluted weighted average number of shares.

**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Year Ended December 31, 2010**

The following table reconciles IFRS net income (loss) to FFO for the three and twelve month periods ended December 31, 2010 and 2009:

	<b>3 Months Ended</b>	<b>Year Ended</b>	<b>3 Months Ended</b>	<b>Year Ended</b>
	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2010</b>	<b>Dec. 31, 2009</b>	<b>Dec. 31, 2009</b>
	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>
Net income (loss) from continuing operations	\$ 10.3	\$ 18.3	\$ (314.9)	\$ (361.9)
Add (deduct):				
Share of income of an associate	13.2	20.8		
Unrealized valuation changes	56.8	47.9	307.1	360.9
Realized valuation changes	0.7	(3.6)		(2.2)
Amortization of financing costs	1.3	4.7	1.1	3.9
Deferred and capital income tax (recovery) / expense	48.0	43.3	(59.6)	(78.0)
Foreign exchange gain	(11.0)	(20.1)	(8.0)	(24.2)
Loss (gain) on derivative instruments	(9.4)	0.7	(0.6)	7.5
Gain on sale of subsidiary	(107.2)	(107.2)		
Impairment on development properties for resale	7.8	7.8	27.8	27.8
Change in provisions	(4.8)	(5.2)	34.1	34.1
Fair value change in financial instruments	0.5	(0.1)	(0.8)	1.2
<b>Funds from operations (FFO)</b>	<b>6.2</b>	<b>7.3</b>	<b>(13.8)</b>	<b>(30.9)</b>
Deduct: net loss on sale of properties developed for resale	(3.0)	(6.3)	(19.9)	(47.4)
<b>FFO, net of sale of properties developed for resale</b>	<b>\$ 9.2</b>	<b>\$ 13.6</b>	<b>\$ 6.1</b>	<b>\$ 16.5</b>

Funds from operations (FFO) from continuing operations, net of the sale of properties developed for resale, was \$13.6 million for the twelve-month period ended December 31, 2010, compared to \$16.5 million recorded in the same period in 2009. This decrease of \$2.9 million, is the result of the \$35.5 million decrease in NOI as detailed below, reduced interest expense of \$14.0 million, and an increase in dividend and other income by \$3.8 million.

**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**International Financial Reporting Standards**  
**Year Ended December 31, 2010**

**SELECTED ANNUAL INFORMATION**

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

	<b>2010</b>	<b>2009</b>
	<i>(Millions, except for per share amounts)</i>	
Property revenue	\$ 133.0	\$ 175.6
Sale of properties developed for resale	\$ 15.1	\$ 110.3
Realized valuation changes	\$ 3.6	\$ 2.2
Unrealized valuation changes	\$ (47.9)	\$ (360.9)
Share of income of an associate	\$ (12.6)	\$
Other income	\$ 27.0	\$ 27.3
<b>Total revenue and other gains</b>	<b>\$ 130.8</b>	<b>\$ (45.5)</b>
<b>Net operating income</b>	<b>\$ 107.4</b>	<b>\$ 142.9</b>
<b>Earnings (loss) before income taxes - continued operations</b>	<b>\$ 49.5</b>	<b>\$ (445.4)</b>
Per Share - Basic	\$ 2.45	\$ (22.46)
Per Share - Diluted	\$ 2.45	\$ (22.46)
<b>Net earnings (loss) - continued operations</b>	<b>\$ 18.3</b>	<b>\$ (361.9)</b>
Per Share - Basic	\$ 0.75	\$ (18.33)
Per Share - Diluted	\$ 0.75	\$ (18.33)
<b>Net loss - discontinued operations</b>	<b>\$ (106.4)</b>	<b>\$ (87.4)</b>
Per Share - Basic	\$ (5.27)	\$ (4.41)
Per Share - Diluted	\$ (5.27)	\$ (4.41)
<b>Net loss</b>	<b>\$ (88.1)</b>	<b>\$ (449.3)</b>
Per Share - Basic	\$ (4.52)	\$ (22.74)
Per Share - Diluted	\$ (4.52)	\$ (22.74)
<b>Funds from operations, net of development pipeline, net of gross income (loss) from the sale of properties being developed for resale</b>	<b>\$ 13.6</b>	<b>\$ 16.5</b>
Per Share - Basic	\$ 0.67	\$ 0.84
Per Share - Diluted	\$ 0.67	\$ 0.84
<b>Total assets</b>	<b>\$ 2,062.9</b>	<b>\$ 3,292.2</b>
<b>Total long term debt</b>	<b>\$ 1,618.5</b>	<b>\$ 2,641.7</b>
<b>Dividend declared per share</b>	<b>\$ NIL</b>	<b>\$ NIL</b>

*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:



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

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

	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 2008	1.24960	Q4 2008	1.22280
% Change		(14.2)%		(3.4)%		(6.0)%		(7.5)%		2.2%

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 €200.0 million at December 31, 2010 and €100.0 million at December 31, 2009. The average rate for Q4 2010 of \$1.37 was 13.8% lower than the comparative period average rate of \$1.59 which had an unfavourable impact on the results of the Company's European operations when comparing Q4 2010 to Q4 2009. The closing rate at December 31, 2010 of \$1.33 was 11.9% lower than the closing rate of \$1.50 at December 31, 2009, which favourably reduced the Canadian dollar equivalent amount of the Company's unhedged Euro denominated debt which stood at €200.0 million at December 31, 2010.

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 6.1% of NOI in Q4 2010 and 6.4% of NOI in Q4 2009. 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, 2010 and December 31, 2009.

**Discontinued operations**

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 resale, with a combined gross square footage of 0.45 million.

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

**OVERALL PERFORMANCE**

Total property revenue was \$133.0 million in 2010, compared to \$175.6 million in 2009, a decrease of 24.3%. Property revenue on the European portfolio decreased by 26.7% from \$157.3 million in 2009 to \$115.3 million in 2010. This 26.7% decrease partially relates to the 2010 quarter over 2009 quarter decrease in the EUR-CAD exchange rate ranging from 11.2% in Q1 2010 to 13.8% in Q4 2010 and was approximately 14.5% lower in Q2 and Q3 2010 compared to the same quarters in 2009. In addition, the Germany segment was impacted by the loss of a former tenant, Quelle, which vacated an industrial property which accounts for approximately 2.6 million square feet in the industrial portfolio. Property revenue from the North America segment decreased slightly to \$17.7 million in 2010 compared to \$18.3 million in 2009, representing a 3.3% decrease, which is reflective of the stable base of investment properties, tenants, leasing and occupancy rates in the US properties during these periods given the decrease of the USD-CAD exchange rate ranging from 16.2% in Q1 2010 to 9.7% in Q4 2010.

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

Revenue decreased by \$95.2 million from \$110.3 million in 2009 to \$15.1 million in 2010 relating to lower sales activity of condominium units in 2010 compared to 2009 due to softening of the real estate market. Revenue from the sale of the Homburg-Harris Centre in Calgary, Alberta was higher in 2009 compared to 2010 as construction was substantially completed on December 31, 2009.

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*Net Operating Income*

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

NOI decreased by approximately \$35.5 million or 24.8% from \$142.9 million in 2009 to \$107.4 in 2010. The decrease in NOI is directly related to the decrease in property revenue as discussed above relating to the 2010 average over 2009 average decrease in the EUR-CAD exchange rate ranging from 11.2% in Q1 2010 to 13.8% in Q4 2010 as well as to the former tenant, Quelle, vacating 2.6 million square feet in Germany on December 31, 2009. Property operating expenses decreased \$7.1 million from \$32.7 million in 2009 to \$25.6 million in 2010 or 21.7%. A significant portion of this decrease is bad debt expense of \$4.2 million relating to the above Germany property booked in 2009 which was not recurring in 2010. Property operating expenses were also impacted by the foreign exchange fluctuations as described above.

*Other Income and Gains*

Other income decreased by approximately \$0.3 million from \$27.3 million in 2009 to \$27.0 in 2010. A decrease in foreign exchange gain of approximately \$4.1 million resulting from a gain of \$20.1 million recorded in 2010 versus \$24.2 million 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 foreign exchange rate which decreased at December 31, 2010.

*Interest Expense*

Interest expense on long term debt was \$110.6 million in 2010, compared to \$124.6 million in 2009, a decrease of \$14.0 million, primarily as a result of decreases with respect to foreign denominated debt arising from lower average Euro exchange rates to the Canadian dollar in 2010 compared to 2009. The weighted average fixed interest rate on long term debt increased slightly to 6.1%, up from 6.0% at December 31, 2009.

The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €148.3 million (\$196.6 million) of its long term debt (December 31, 2009 - EUR €161.2 million (\$277.8 million)). During the year ended December 31, 2009 due to a reduction of interest rates in The Netherlands, Germany and the Baltics, a loss of \$7.5 million was recorded on this derivative financial instrument. Interest rates in Europe continued at slightly reduced amounts during the year ended December 31, 2010, leading to a further loss of \$0.7 million being recorded in 2010.

*Net Adjustments to Fair Values, Impairment Charges and Provisions*

As a result of independent third party appraisals and management estimates, a negative fair value adjustment to investment properties and investment properties under development of \$47.9 million was recorded in 2010, compared to an adjustment of \$360.9 million in 2009. In addition, an impairment charge of \$27.8 million was recorded in 2009 on the Company's development portfolio. Also, a provision of \$34.1 million was recorded in 2009 relating to an onerous headlease commitment which commenced during 2010. The Company is continuing to work towards leasing this space to tenants to offset its commitment under the headlease. The provision recorded was reflective of a softening of net commercial leasing rates in Calgary, Alberta. These adjustments are reflective of the challenges facing the real estate industry since the global economic crisis began in late 2008. Management is confident that real estate values will begin to increase as the economies in North America and Europe continue to recover.

*General and Administrative*

General and administrative expenses were relatively stable at \$14.8 million in 2010 compared to \$14.2 million in 2009. The \$0.6 million increase relates to increased professional fees and reorganization costs incurred after the HCREIT restructuring.

*Earnings / Loss Before Income Taxes From Continuing Operations*

The loss before income taxes was \$445.4 million in 2009 compared to net income of \$49.5 million in 2010, an improvement of \$494.9 million. This was primarily due to:

- A decrease in negative fair value adjustments of \$321.1 million, from \$369.6 million recorded in 2009 to \$48.5 million recorded in 2010 related to economy improvements since 2009;
- A gross loss from the sale of development properties of \$6.3 million in 2010 compared to a gross loss of \$47.4 million in 2009, an increase of \$41.1 million;
- A gain on sale of subsidiary of \$107.2 million was recorded in 2010 relating to the sale of the Nurnberg, Germany property and related debt on December 31, 2010;
- A decrease in impairment charge on the Company's development portfolio of \$20.0 million to \$7.8 million in 2010 from \$27.8 million in 2009;

Offset by:

- A foreign exchange gain of approximately \$20.1 million recorded in 2010, compared to a gain of \$24.2 million recorded in 2009, a difference of \$4.1 million;
- A loss on the Company's share of income on an associate of \$12.6 million in relation to a October 27, 2010 public offering of units completed by HCREIT on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership from 41.2% to 33.7%.

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*Balance Sheet Highlights*

Total assets decreased by \$1,229.3 million to \$2,062.9 million in 2010 from \$3,292.2 million in 2009, mainly resulting from a \$1,337.7 million reduction in investment properties due primarily to the sale of assets to Homburg Canada REIT. Of the decrease \$180.4 million is due to the strengthening of the Canadian dollar against the Euro from \$1.50 at December 31, 2009 to \$1.33 at December 31, 2010; \$144.2 million was moved to assets held for sale relating largely to the portfolio of US Cedar Shopping Center joint venture properties; \$65.0 million of assets were disposed of relating to SNS Property Finance; \$29.8 million of assets were disposed of relating to the Nurnberg, Germany property; and \$48.5 million relates to fair value adjustments on investment properties and investments discussed above.

Total long term debt decreased by \$1,023.2 million to \$1,618.5 million in 2010 from \$2,641.7 million in 2009. Of the decrease, \$541.6 million net of principal payments to May 25, 2010 was disposed with the HCREIT transaction; \$180.3 million relates to debt on the two disposals discussed above; \$69.0 million was reclassified as liabilities associated with assets classified as held for sale and normal principal repayments in 2010 over 2009. Offsetting this, the Company assumed \$81.4 million in new debt during 2010 with the remaining of the variance relating to the previously discussed foreign exchange rate changes.

Shareholders' equity decreased \$98.4 million from \$200.1 million at December 31, 2009 to \$101.7 million at December 31, 2010. The net loss for 2010 amounted to \$88.1 million. Other comprehensive loss decreased by \$18.0 million largely relating to foreign exchange fluctuations. Share capital decreased by \$2.2 million resulting from the Normal Course Issuer Bid. Other paid in capital increased by \$6.2 million from the issue of Homburg Capital Securities A. Retained earnings increased by \$4.9 million relating to a related party currency guarantee discount on cancellation during the year (see Transactions with Related Parties section Note i).

*Global Economic Crisis, Liquidity, Capital Resources and Capital Commitments*

The Company has been negatively impacted by global economic and market conditions which have resulted in a decrease in real estate transactions and declining real estate values. The Company incurred net losses of \$88.1 million and \$449.3 million for the years ended December 31, 2010 and December 31, 2009, respectively, and is highly levered with a debt to equity ratio of 16.55:1 at December 31, 2010. 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.

The net loss of \$88.1 million in 2010 was the result of the net loss from discontinued operations of \$106.4 million. Thus net income from continuing operations was in fact \$18.3 million.

The net loss of \$449.3 million for 2009 included unearned valuation losses of \$445.0 million and \$48.7 million with respect to Investment properties and Investment properties under development, respectively. These amounts clearly demonstrate the impact of non operational items on the net loss. These unearned valuation losses can reverse when market conditions improve.

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**SUMMARY OF QUARTERLY RESULTS**

	Three Months Ended							
	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31
	2010	2010	2010	2010	2009	2009	2009	2009
	<i>(Millions, except for per share amounts)</i>							
Property revenue	\$ 35.4	\$ 30.9	\$ 31.2	\$ 35.5	\$ 42.9	\$ 41.3	\$ 47.9	\$ 43.5
Sale of properties developed for resale	1.9	2.5	5.2	5.5	61.7	8.8	15.6	24.2
Realized valuation changes	(0.7)		(0.2)	4.5	(6.8)		0.6	1.6
Unrealized valuation changes	(56.8)	10.0	(2.1)	0.9	(312.6)	(10.4)	(40.1)	2.3
Share of income of an associate	(14.1)	(0.1)	1.6					
Other income	20.8	(12.5)	4.6	13.5	10.2	2.3	10.6	(4.4)
<b>Total revenue and other gains</b>	<b>(13.5)</b>	<b>30.8</b>	<b>40.3</b>	<b>59.9</b>	<b>(204.6)</b>	<b>41.9</b>	<b>34.6</b>	<b>67.2</b>
<b>Net operating income</b>	<b>\$ 25.7</b>	<b>\$ 24.8</b>	<b>\$ 26.6</b>	<b>\$ 30.3</b>	<b>\$ 29.9</b>	<b>\$ 35.3</b>	<b>\$ 39.3</b>	<b>\$ 38.4</b>
<b>Earnings (loss) before taxes-</b>								
<b>Continuing Operations</b>	<b>\$ 43.3</b>	<b>\$ (5.6)</b>	<b>\$ (4.3)</b>	<b>\$ 16.1</b>	<b>\$ (384.9)</b>	<b>\$ (30.2)</b>	<b>\$ (34.4)</b>	<b>\$ 4.1</b>
Per Share - Basic	\$ 2.10	\$ (0.32)	\$ (0.25)	\$ 0.77	\$ (19.50)	\$ (1.55)	\$ (1.75)	\$ 0.21
Per Share - Diluted	\$ 2.10	\$ (0.32)	\$ (0.25)	\$ 0.77	\$ (19.50)	\$ (1.55)	\$ (1.75)	\$ 0.20
<b>Net earnings (loss) - Continuing Operations</b>	<b>\$ 10.3</b>	<b>\$ 1.3</b>	<b>\$ (9.6)</b>	<b>\$ 16.3</b>	<b>\$ (314.9)</b>	<b>\$ (21.6)</b>	<b>\$ (28.4)</b>	<b>\$ 3.0</b>
Per Share - Basic	\$ 0.44	\$ 0.02	\$ (0.51)	\$ 0.77	\$ (15.95)	\$ (1.11)	\$ (1.44)	\$ 0.15
Per Share - Diluted	\$ 0.44	\$ 0.02	\$ (0.51)	\$ 0.77	\$ (15.95)	\$ (1.11)	\$ (1.44)	\$ 0.15
<b>Net earnings - Discontinued Operations</b>	<b>\$ (3.5)</b>	<b>\$ (1.3)</b>	<b>\$ (103.1)</b>	<b>\$ 1.5</b>	<b>\$ (95.1)</b>	<b>\$ 5.0</b>	<b>\$ 0.2</b>	<b>\$ 2.5</b>
Per Share - Basic	\$ (0.18)	\$ (0.06)	\$ (5.09)	\$ 0.08	\$ (4.81)	\$ 0.25	\$ 0.01	\$ 0.13
Per Share - Diluted	\$ (0.18)	\$ (0.06)	\$ (5.09)	\$ 0.08	\$ (4.81)	\$ 0.25	\$ 0.01	\$ 0.12
<b>Net earnings (loss)</b>	<b>\$ 6.8</b>	<b>\$ 0.1</b>	<b>\$ (112.7)</b>	<b>\$ 17.8</b>	<b>\$ (410.0)</b>	<b>\$ (16.6)</b>	<b>\$ (28.2)</b>	<b>\$ 5.5</b>
Per Share - Basic	\$ 0.26	\$ (0.04)	\$ (5.60)	\$ 0.85	\$ (20.76)	\$ (0.86)	\$ (1.43)	\$ 0.28
Per Share - Diluted	\$ 0.26	\$ (0.04)	\$ (5.60)	\$ 0.85	\$ (20.76)	\$ (0.86)	\$ (1.43)	\$ 0.27
<b>Funds from operations, net of gross income (loss) from the sale of properties developed for resale</b>	<b>\$ 9.2</b>	<b>\$ 2.6</b>	<b>\$ (1.2)</b>	<b>\$ 2.9</b>	<b>\$ 6.1</b>	<b>\$ 2.9</b>	<b>\$ 5.8</b>	<b>\$ 1.6</b>
Per Share - Basic	\$ 0.47	\$ 0.13	\$ (0.06)	\$ 0.14	\$ 0.31	\$ 0.15	\$ 0.29	\$ 0.08
Per Share - Diluted	\$ 0.47	\$ 0.13	\$ (0.06)	\$ 0.14	\$ 0.31	\$ 0.15	\$ 0.29	\$ 0.08
<b>Total assets</b>	<b>\$ 2,062.9</b>	<b>\$ 2,324.9</b>	<b>\$ 2,192.5</b>	<b>\$ 3,096.9</b>	<b>\$ 3,292.2</b>	<b>\$ 3,880.6</b>	<b>\$ 3,962.3</b>	<b>\$ 4,081.2</b>
<b>Total long term debt</b>	<b>\$ 1,618.5</b>	<b>\$ 1,729.3</b>	<b>\$ 1,793.7</b>	<b>\$ 2,493.5</b>	<b>\$ 2,641.7</b>	<b>\$ 2,762.5</b>	<b>\$ 2,816.0</b>	<b>\$ 2,864.7</b>
<b>Dividend declared per share</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>	<b>\$ NIL</b>

*Note: The FFO calculations for the periods June and September have been restated to reflect the change in definition of FFO, as well as September has been adjusted to correct a misclass of deferred rental income. The September NOI has also been restated to adjust for a misclass of deferred rental income.*

**Fourth Quarter Results**

Property revenues from continuing operations were \$35.4 million during the fourth quarter ended December 31, 2010, compared to \$42.9 million for the same quarter in 2009 for a decrease of \$7.5 million. The decrease is mainly a result of the 13.8% decrease in the average value of the Euro against the Canadian dollar in the fourth quarter of 2010 compared to the same quarter last year which equated to a \$5.4 million decrease. In addition, the decrease was a result of the loss of former tenant Quelle GmbH which declared bankruptcy and vacated an industrial property in Nurnberg, Germany on December 31, 2009, as well as other current vacancies in the European portfolio.

Net operating income (NOI) was \$25.7 million in the fourth quarter of 2010, compared to \$29.9 million in the fourth quarter of 2009 for a decrease of \$4.2 million. The decrease is primarily due to the property revenue fluctuations in Europe as outlined above as well as \$0.6 million in headlease commitments incurred in Q4 2010 that were not present in 2009.

Net operating income from continuing operations increased slightly to \$25.7 million in Q4 2010, \$0.9 million higher than the \$24.8 million recorded in Q3 2010.

The Company incurred earnings before taxes from continuing operations for the fourth quarter of 2010 of \$43.3 million (\$2.10 per share), compared to loss before taxes of \$384.9 million in the same period in 2009 (\$19.50 per share), a variance of \$428.2 million. The increase relates primarily to the following:

- A net decrease in fair value of investment properties of \$40.0 million in Q4 2010 compared to a net decrease in fair market value of \$263.9 million in Q4 2009. This variance of \$223.9 million is largely due to a \$132.0 million adjustment in fair value in Q4 2009 to the Nurnberg, Germany property vacated by former tenant, Quelle, after an independent external analysis.
- The Company realized a gain of \$107.2 million in Q4 2010 relating to the sale of the Nuremberg, Germany property.
- A provision related to the establishment of an onerous contract was initially recorded in Q4 of 2009 for \$34.1 million compared to a change in the provision in Q4 2010 of \$4.7 million for a variance of \$29.4 million.

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- Investment properties under development decreased by \$16.7 million in Q4 2010 compared to a decrease of \$43.2 million in Q4 2009 for a positive variance of \$59.9 million relating to significant write-downs of development properties in 2009 after a slowing of construction and development operations.
- The Company realized a \$3.0 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 2010, compared to a \$19.9 million gross loss in Q4 2009, a positive variance of \$16.9 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore net costs recorded in Q4 2009 are not recurring, reducing the loss on the properties. This is offset by lower sales activity on condominium units in Q4 2010.
- Lower interest expense in Q4 2010 by \$2.6 million over Q4 2009, mainly due to the reduction of debt at December 31, 2010 as well as the slight strengthening of the Canadian dollar against the Euro.
- A foreign exchange gain of \$11.0 million was recorded in Q4 2010, compared to a gain of \$8.0 million in Q4 2009, a variance of \$3.0 million. The gain in Q4 2010 resulted from a 5.5% weakening of the Canadian dollar compared to the Euro between Q3 2010 and Q4 2010 from \$1.40:€1 in the prior quarter to \$1.33:€1 at December 31, 2010. This fluctuation in foreign exchange decreased the value of the Company's €100 million of unhedged debt. This is compared to a strengthening of the Canadian dollar during the third quarter of 2009 from \$1.58:€1 at Q3 2009 to \$1.50:€1 at Q4 2009.

Offset by:

- A Q4 loss on the Company's share of income on an associate of \$14.1 million in relation to a October 27, 2010 public offering of units completed by HCREIT on a bought deal basis resulting in a deemed disposal of the Company's investment and a decrease in ownership from 41.2% to 33.7%.
- A fair value loss on investments of \$0.5 million in Q4 2010, compared to a gain of \$0.8 million in Q4 2009, a negative variance of \$1.3 million, resulting from decreases in the market prices on the Company's quoted investments;

FFO, net of the sale of properties developed for resale, was \$9.2 million in Q4 2010 compared to \$6.1 million in Q4 2009. The increase of \$3.1 million primarily related to lower NOI of \$4.2 million, offset by the foreign exchange gain.

#### Third Quarter Results

Property revenues from continuing operations were \$30.9 million during the third quarter ended September 30, 2010, compared to \$41.3 million for the same quarter in 2009. The decrease is due to revenue in Europe being down by EUR \$3.6 million, due to the loss of former tenant Quelle GmbH which declared bankruptcy and vacated an industrial property in Nurnberg, Germany on December 31, 2009, as well as other current vacancies in the European portfolio. Property revenues were also impacted \$10.4 million resulting from the 14.5% decrease in the average value of the Euro against the Canadian dollar in the third quarter of 2010 compared to the same quarter last year, which followed the \$16.7 million decrease in the second quarter of 2010, over the second quarter of 2009.

Net operating income (NOI) was \$24.8 million in the third quarter of 2010, compared to \$35.3 million in the third quarter of 2009. The decrease is impart due to €3.7 million less in European NOI for the reasons outlined above.

Net operating income from continuing operations was \$24.8 million in Q3 2010, \$1.8 million lower than the \$26.6 million recorded in Q2 2010. The average Canadian dollar foreign exchange rate for the Euro decreased by 0.9% in Q3 2010 versus Q2 2010, which negatively impacted the results. Property revenue decreased by approximately \$0.3 million due to the loss of a former tenant in Germany, Quelle, which vacated the premises on December 31, 2009.

The Company incurred loss before taxes from continuing operations for the third quarter of 2010 of \$5.6 million (\$0.32 per share), compared to loss before taxes of \$30.2 million in the same period in 2009 (\$1.55 per share), a variance of \$24.6 million. The increase relates primarily to the following:

- A net increase in fair value of investment properties of \$10.1 million in Q3 2010 compared to a net decrease in fair market value of \$10.4 million in Q3 2009 largely due to a \$34.6 million adjustment in fair value to two Germany properties after an independent external analysis.
- The Company realized a \$0.8 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 2010, compared to a \$18.8 million gross loss in Q3 2009, a positive variance of \$18.0 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore net costs recorded in Q3 2009 are not recurring, reducing the loss on the properties. This is offset by lower sales activity on condominium units in Q3 2010.
- A fair value loss on investments of \$39.0 thousand in Q3 2010, compared to a loss of \$1.1 million in Q3 2009, a variance of \$1.1 million, resulting from increases in the market prices on the Company's quoted investments;
- Lower interest expense in Q3 2010 by \$3.6 million over Q2 2009, mainly due to the reduction of debt by \$912.4 million from \$2,641.7 million at September 30, 2009 to \$1,729.3 million at September 30, 2010 as well as the slight weakening of the Canadian dollar against the Euro;

Offset by:

- A foreign exchange loss of \$10.6 million was recorded in Q3 2010, compared to a gain of \$5.4 million in Q3 2009, a variance of \$16.0 million. The loss in Q3 2010 resulted from a 9.6% weakening of the Canadian dollar compared to the Euro between Q2 2010 and Q3 2010 from \$1.28:€1 in the prior quarter to \$1.40:€1 at September 30, 2010. This is compared to a strengthening of the Canadian dollar during the third quarter of 2009 from \$1.62:€1 at Q2 2009 to \$1.58:€1 at Q3 2009. In Q3 2010, this fluctuation in foreign exchange increased the value of the Company's €100 million of unhedged debt by \$12.0 million.
- NOI was \$10.5 million lower in Q3 2010 compared to Q3 2009, primarily due to the property in Germany that was vacated by the former tenant, Quelle, on December 31, 2009, as well as a 14.5% decrease in the average Euro exchange rate compared to the Canadian dollar;

FFO, net of the sale of properties developed for resale, was \$1.4 million in Q3 2010 compared to \$2.9 million in Q3 2009. The decrease of \$1.5 million primarily related to lower NOI of \$10.5 million, offset by the foreign exchange gain.



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*Second Quarter Results*

Property revenues from continuing operations were \$31.2 million during the second quarter ended June 30, 2010, compared to \$47.9 million for the same quarter in 2009. The decrease is due to revenue in Europe down by EUR 6.3 million, due to the loss of former tenant Quelle GmbH which declared bankruptcy and vacated an industrial property in Nurnberg, Germany on December 31, 2009, and other current vacancies in the European portfolio. Property revenues were also impacted by \$7.3 million resulting from the 14.4% decrease in the average value of the Euro against the Canadian dollar in the second quarter of 2010 compared to the same quarter last year, which followed the \$4.3 million or 11.2% decrease in the first quarter of 2010, over the first quarter of 2009.

Net operating income from continuing operations was \$26.6 million in Q2 2010, \$3.7 million lower than the \$30.3 million recorded in Q1 2010. The average Canadian dollar foreign exchange rate for the Euro decreased by 4.6% in Q2 2010 versus Q1 2010, which negatively impacted the results. Property revenue decreased by approximately \$4.3 million due to the loss of a former tenant in Germany, Quelle, which vacated the premises on December 31, 2009.

The Company incurred loss before taxes from continuing operations for the second quarter of 2010 of \$4.3 million (\$0.25 per share), compared to loss before taxes of \$34.4 million in the same period in 2009 (\$1.75 per share), a variance of \$30.1 million. The decrease relates primarily to the following:

- NOI was \$12.7 million lower in Q2 2010 compared to Q2 2009, primarily due to the property in Germany that was vacated by the former tenant, Quelle, on December 31, 2009, as well as a 4.6% decrease in the average Euro exchange rate compared to the Canadian dollar;
- A net decrease in fair value of investment properties of \$2.1 million in Q2 2010 compared to a net decrease in fair market value of \$40.1 million in Q2 2009 largely due to a \$34.6 million adjustment in fair value to two Germany properties after an independent external analysis.
- The Company realized a \$2.7 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q2 2010, compared to a \$10.3 million gross loss in Q2 2009, a variance of \$7.6 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore revenues and costs recorded in Q2 2009 are not recurring, as well as lower sales activity on condominium units in Q2 2010.
- A fair value gain on investments of \$0.3 million in Q2 2010, compared to a gain of \$2.3 million in Q2 2009, a variance of \$2.0 million, resulting from changes in the market prices on the Company's quoted investments;
- During the quarter, the Company disposed of its Canadian operating segment, which resulted in a net loss from the discontinued operations after tax of \$91.6 million.
- A foreign exchange gain of \$6.5 million was recorded in Q2 2010, compared to a gain of \$3.6 million in Q2 2009, a variance of \$2.9 million. The gain in Q2 2010 mainly resulted from a 6.7% strengthening of the Canadian dollar compared to the Euro, from \$1.50:€1 at December 31, 2009 to \$1.28:€1 at June 30, 2010, which decreased the value of the Company's €100 million of unhedged debt by \$22.0 million.
- Lower interest expense in Q2 2010 by \$5.7 million over Q2 2009, mainly due to the reduction of debt by \$848.0 million from \$2,641.7 million at June 30, 2009 to \$1,793.7 million at June 30, 2010 as well as the strengthening of the Canadian dollar against the Euro, as discussed earlier;

FFO, net of the sale of properties developed for resale, was \$0.3 million in Q2 2010 compared to \$7.4 million in Q2 2009. The decrease of \$7.1 million primarily related to lower NOI of \$12.7 million, offset by the foreign exchange gain.

*First Quarter Results*

Net operating income from continuing operations was \$30.3 million in Q1 2010, \$0.9 million lower than the \$31.2 million recorded in Q4 2009. The average Canadian dollar foreign exchange rate for the Euro decreased by 9.1% in Q1 2010 versus Q4 2009, which negatively impacted the results by approximately \$2.5 million. Property revenue decreased by approximately \$3.0 million due to the loss of a former tenant in Germany, Quelle, which vacated the premises on December 31, 2009. These impacts were offset by a lower bad debt expense recorded in Q1 2010 as compared to Q4 2009 which included a \$5.6 million charge relating to Quelle.

The Company incurred earnings before taxes for the first quarter of 2010 of \$16.1 million (\$0.77 per share), compared to earnings before taxes of \$4.1 million in the same period in 2009 (\$0.21 per share), a variance of \$12.0 million. The increase relates primarily to the following:

- NOI was \$8.1 million lower in Q1 2010 compared to Q1 2009, primarily due to the property in Germany that was vacated by the former tenant, Quelle, on December 31, 2009, as well as an 11.2% decrease in the average Euro exchange rate compared to the Canadian dollar;
- The Company realized a \$0.2 million gross profit (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q1 2010, compared to a \$1.6 million gross profit in Q1 2009, a variance of \$1.4 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore revenues and costs recorded in Q1 2009 are not recurring, as well as lower sales activity on condominium units in Q1 2010.
- A fair value gain on investments of \$0.4 million in Q1 2010, compared to a loss of \$3.2 million in Q1 2009, a variance of \$3.6 million, resulting from changes in the market prices on the Company's quoted investments.

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- A foreign exchange gain of \$13.2 million was recorded in Q1 2010, compared to a gain of \$7.2 million in Q1 2009, a variance of \$6.0 million. The gain in Q1 2010 mainly resulted from a 8.8% strengthening of the Canadian dollar compared to the Euro, from \$1.50:€1 at December 31, 2009 to \$1.37:€1 at March 31, 2010, which decreased the value of the Company's €100 million of unhedged debt by \$13.0 million.
- Lower interest expense in Q1 2010 by \$2.4 million, mainly due to the strengthening of the Canadian dollar against the Euro, as discussed earlier.
- An increase in other income of \$4.2 million.
- A decrease in the loss recorded on derivative instruments of \$3.7 million resulting from recovering interest rates.

FFO, net of the sale of properties developed for resale, was \$2.7 million in Q1 2010 compared to \$1.6 million in Q1 2009. The increase of \$1.1 million primarily related to lower NOI of \$8.1 million, offset by the foreign exchange gain.

**RESULTS OF OPERATIONS**

*Property revenue and net operating income*

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

<i>Geographical Segments</i> <i>(In millions unless otherwise stated)</i>	<u>Germany</u>	<u>Netherlands</u>	<u>The Baltics</u>	<u>North America</u>	<u>Total</u>
<b>Year ended December 31, 2010</b>					
Property revenue	\$ 63.2	\$ 33.2	\$ 18.9	\$ 17.7	\$ 133.0
Operating expenses	<u>4.6</u>	<u>3.9</u>	<u>5.9</u>	<u>11.2</u>	<u>25.6</u>
Net operating income	<u>\$ 58.6</u>	<u>\$ 29.3</u>	<u>\$ 13.0</u>	<u>\$ 6.5</u>	<u>\$ 107.4</u>
Occupancy rate at December 31, 2010	100.0 %	69.0 %	78.2 %	89.6 %	
<b>Year ended December 31, 2009</b>					
Property revenue	\$ 89.9	\$ 45.3	\$ 22.1	\$ 18.3	\$ 175.6
Operating expenses	<u>10.3</u>	<u>6.4</u>	<u>6.8</u>	<u>9.2</u>	<u>32.7</u>
Net operating income	<u>\$ 79.6</u>	<u>\$ 38.9</u>	<u>\$ 15.3</u>	<u>\$ 9.1</u>	<u>\$ 142.9</u>
Occupancy rate at December 31, 2009	55.2 %	78.3 %	88.1 %	94.6 %	
<b>Three months ended December 31, 2010</b>					
Property revenue	\$ 17.2	\$ 8.4	\$ 4.8	\$ 4.9	\$ 35.3
Operating expenses	<u>1.9</u>	<u>1.8</u>	<u>1.6</u>	<u>4.4</u>	<u>9.7</u>
Net operating income	<u>\$ 15.3</u>	<u>\$ 6.6</u>	<u>\$ 3.2</u>	<u>\$ 0.5</u>	<u>\$ 25.6</u>
<b>Three months ended December 31, 2009</b>					
Property revenue	\$ 21.0	\$ 12.3	\$ 5.3	\$ 4.3	\$ 42.9
Operating expenses	<u>6.8</u>	<u>2.0</u>	<u>1.7</u>	<u>2.5</u>	<u>13.0</u>
Net operating income	<u>\$ 14.2</u>	<u>\$ 10.3</u>	<u>\$ 3.6</u>	<u>\$ 1.8</u>	<u>\$ 29.9</u>

Total property revenue was \$133.0 million in 2010, compared to \$175.6 million in 2009, a decrease of \$42.6 million or 24.3%. The Germany segment was impacted by the loss of a former tenant, Quelle, which vacated an industrial property which accounts for approximately 2.6 million square feet in the industrial portfolio. Additionally, a decrease of 13.8% in the average Euro foreign exchange rate compared to the Canadian dollar negatively impacted the result of the Germany, The Netherlands and the Baltic States segments.

Property revenue from the North America segment decreased to \$17.7 million in 2010 compared to \$18.3 million in 2009 mainly due to the average USD foreign exchange rate compared to the Canadian dollar being lower in 2010 compared to 2009 by 9.7%.

Property operating expenses increased by \$2.0 million in the North America segment to \$11.2 million in 2010 compared to \$9.2 million in 2009 due to new headlease commitments in 2010. The European segments experienced a decrease in property operating expenses from a total of \$23.5 million in 2009 to \$14.4 million in 2010 for a decrease of \$9.1 million or 38.7%. Of this reduction, approximately \$4.8 million is the result of the decrease in the Euro average exchange rate by 13.8% from 2009 as previously discussed. In addition, a \$5.6 million bad debt charge was recorded in 2009 relating to the former tenant, Quelle, in the Nurnberg, Germany property which was not recurring in 2010.

NOI decreased by 24.8% in 2010 compared to 2009. This is reflective of the larger decrease in property revenues compared to property operating expenses as discussed above relating to the vacancy in Germany (relating to Quelle), which represented approximately 2.6 million square feet in the Industrial segment. As a result, the overall occupancy in that segment was 55.2% at December 31, 2009. The property has been sold as of December 31, 2010, therefore the occupancy rate in the Germany segment has increased to 100.0% at December 31, 2010. In addition, the NOI decreased as a result of the foreign currency changes.



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

<i>Property Type Segments</i> <i>(In millions unless otherwise stated)</i>	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
<b>Year ended December 31, 2010</b>					
Property revenue	\$ 18.7	\$ 17.0	\$ 97.3	\$	\$ 133.0
Operating expenses	<u>5.3</u>	<u>6.1</u>	<u>13.1</u>	<u>1.1</u>	<u>25.6</u>
Net operating income	<u>\$ 13.4</u>	<u>\$ 10.9</u>	<u>\$ 84.2</u>	<u>\$ (1.1)</u>	<u>\$ 107.4</u>
Occupancy rate at December 31, 2010	72.7 %	57.8 %	92.6 %		
<b>Year ended December 31, 2009</b>					
Property revenue	\$ 21.2	\$ 36.1	\$ 118.3	\$	\$ 175.6
Operating expenses	<u>5.9</u>	<u>9.4</u>	<u>17.4</u>		<u>32.7</u>
Net operating income	<u>\$ 15.3</u>	<u>\$ 26.7</u>	<u>\$ 100.9</u>	<u>\$</u>	<u>\$ 142.9</u>
Occupancy rate at December 31, 2009	96.6 %	51.1 %	94.9 %		
<b>Three months ended December 31, 2010</b>					
Property revenue	\$ 4.6	\$ 4.1	\$ 26.6	\$	\$ 35.3
Operating expenses	<u>1.3</u>	<u>2.3</u>	<u>4.9</u>	<u>1.1</u>	<u>9.6</u>
Net operating income	<u>\$ 3.3</u>	<u>\$ 1.8</u>	<u>\$ 21.7</u>	<u>\$ (1.1)</u>	<u>\$ 25.7</u>
<b>Three months ended December 31, 2009</b>					
Property revenue	\$ 5.1	\$ 8.5	\$ 29.3	\$	\$ 42.9
Operating expenses	<u>1.7</u>	<u>7.2</u>	<u>4.1</u>		<u>13.0</u>
Net operating income	<u>\$ 3.4</u>	<u>\$ 1.3</u>	<u>\$ 25.2</u>	<u>\$</u>	<u>\$ 29.9</u>

The retail portfolio consists of 7 (December 31, 2009 - 82) retail properties, representing a shopping center in Germany and retail spaces in the Baltics having total rentable square footage of 0.3 million square feet. At December 31, 2010, a joint venture in shopping centers in the US with a Q4 2009 vacancy of 97.5% was reclassified as assets available for sale reducing remaining retail vacancy to 72.7% at December 31, 2010 (96.6% - December 31, 2009). The retail rental revenue and net operating income for 2010 on the properties held on December 31, 2010 have decreased 11.8% and 12.4% respectively over the same period in 2009 due primarily to property sales and decrease in EUR:CAD and USD:CAD foreign exchange rates during the year.

The industrial portfolio consists of 28 (December 31, 2009 - 38) industrial buildings located in Europe with a total area of 2.1 million square feet. The Company's industrial buildings generated \$17.0 million total rental revenue in 2010 and \$10.9 million in net operating income compared to \$36.1 million total rental revenue in 2009 and \$26.7 million in net operating income. These decreases of \$19.1 million and \$15.8 million respectively is primarily due to the loss of the former tenant, Quelle, and increased vacancy in the Netherlands as previously discussed. Overall occupancy in the industrial portfolio is up slightly to 57.8% at December 31, 2010 (51.1% - December 31, 2009) relating to the disposal of the Nurnberg, Germany property, however there are several industrial properties still affected by the real estate economy slump in Europe.

The office portfolio consists of 77 (December 31, 2009 - 101) small to medium sized office buildings in the United States and Europe, with a total area of 5.1 million square feet. Property revenue in 2010 was \$97.3 million compared to \$118.3 million in the same period of 2009 while net operating income was \$84.2 million versus \$100.9 million in 2009. As operations have been stable in this segment, the decrease is due to the decrease in the foreign exchange rates. Overall occupancy in the office portfolio was 92.6% at December 31, 2010 (94.9% - December 31, 2009).

***Properties Developed for Resale***

Revenue from the sale of properties developed for resale decreased by \$95.2 million from \$110.3 million in 2009 to \$15.1 million in 2010. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was completed on December 31, 2009, and therefore revenues and costs recorded in 2009 are not recurring, as well as lower sales activity on condominium units in 2010. Net loss from the sale of development properties was \$6.3 million in 2010, compared to a net loss of \$47.4 million in 2009.

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**BALANCE SHEET HIGHLIGHTS**

*Assets*

Total assets decreased from \$3.3 billion at December 31, 2009 to \$2.1 billion at December 31, 2010. The table below summarizes Homburg Invest's asset base.

	<b>December 31 2010</b>	December 31 2009
	<i>(Millions)</i>	<i>(Millions)</i>
Investment properties	<b>\$ 1,401.7</b>	\$ 2,739.4
Investment properties under development	<b>217.4</b>	245.9
Investments at fair market value	<b>8.9</b>	27.9
Investment in an associate, at equity	<b>191.7</b>	
Deferred tax assets	<b>8.3</b>	26.7
Restricted cash	<b>4.1</b>	23.1
Cash and cash equivalents	<b>13.7</b>	32.6
Properties under development for resale	<b>36.9</b>	74.0
Receivables and other	<b>36.0</b>	49.6
Assets classified as held for sale	<b>144.2</b>	73.0
	<b><u>\$ 2,062.9</u></b>	<b><u>\$ 3,292.2</u></b>

*Investment Properties and Investment Properties under Development*

Investment properties decreased by \$1,337.7 million from \$2,739.4 million at December 31, 2009 to \$1,401.7 million at December 31, 2010. The fair market value of investment properties was reduced by 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 \$1.33:€1 at December 31, 2010 compared to \$1.50:€1 at December 31, 2009, a decrease of approximately 11.9% which equates to a \$180.4 million decrease. Approximately \$1.0 billion was sold to Homburg Canada REIT, \$144.2 million was moved to assets held for sale relating largely to the portfolio of US Cedar Shopping Center joint venture properties; \$29.8 million of assets were disposed of relating to the Nurnberg, Germany property; and \$47.9 million relates to fair value adjustments on investment properties. Investment properties under development decreased by \$28.5 million from \$245.9 million to \$217.4 million at December 31, 2010 as a result of the sale of Chestermere Land Development. Capital expenditures and capitalized interest totaled \$44.6 million.

*Investment in an Associate, at Equity*

Investment in an associate represents the 33.70% equity investment in HCREIT obtained during Q2 2010. The balance represents the investment at cost of \$217.4 million, which includes the Company's share of HCREIT's bargain purchase gain of \$69.4 million, distributions of \$8.2 million, and HII's share of HCREIT's net income of \$0.1 million.

*Assets classified as Held for Sale*

Assets held for sale increased by \$71.2 million from \$73.0 million at December 31, 2009 to \$144.2 million at December 31, 2010 largely in relation to the planned sale of the Company's 80% joint venture interest in shopping centers in the United States. It is expected that this investment will be sold in the third quarter of 2011. In addition to the above, the restatement to discontinued operations of the assets transferred to HCREIT during Q2 2010 for the comparative period of December 31, 2009 offset the above increase during 2010.

*Properties under Development for Resale*

Development properties decreased by \$37.1 million due to the sale of 333 Sherbrooke East, in addition to sales in the period.

*Receivables and other*

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

*Investments at Fair Market Value*

The long term investments totaled \$8.9 million at December 31, 2010 compared to \$27.9 million at December 31, 2009. The difference mainly relates to the disposal of both the DEGI L.P. and DIM Vastgoed N.V. investments during 2010. The balance is additionally impacted by fair value adjustments with respect to the Company's remaining investments in other publicly listed real estate enterprises.

*Capital Structure*

The table below summarizes Homburg Invest's capital structure.

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	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>(Millions)</b>		<b>(Millions)</b>	
Long term debt	\$ 1,618.5	86.2 %	\$ 2,641.7	86.0 %
Construction financing	40.2	2.1 %	95.0	3.1 %
Homburg Capital Securities A	1.0	0.1 %	3.9	0.1 %
Long term payables	10.3	0.5 %	11.7	0.4 %
Due to DIM shareholders		%	3.0	0.1 %
Non-construction demand loans	12.9	0.7 %	74.3	2.4 %
Liabilities related to assets classified as held for sale	\$ 92.0	4.9 %	\$ 43.4	1.4 %
	\$ 1,774.9	94.5 %	\$ 2,873.0	93.5 %
Shareholders' equity	101.7	5.4 %	200.1	6.5 %
	<u>\$ 1,876.6</u>	<u>99.9 %</u>	<u>\$ 3,073.1</u>	<u>100.0 %</u>

**Long Term Debt**

Mortgages payable on revenue producing properties decreased by \$910.6 million during 2010. Of the decrease, \$541.6 million net of principal payments to May 25, 2010 was disposed with the HCREIT transaction; \$180.3 million relates to debt on the two disposals discussed above; \$69.0 million was reclassified as liabilities associated with assets classified as held for sale and normal principal repayments in 2010 over 2009. Offsetting this, the Company incurred \$81.4 million in new debt during 2010 with the remaining of the variance relating to the previously discussed foreign exchange rate changes on the EUR and USD denominated debt.

Mortgage bonds payable decreased by \$59.4 million during 2010, as a result of approximately \$31.8 million (EUR €24.0 million) of Homburg Mortgage Bond 2 being repaid. During 2009 and most of 2010 the Company had guarantee arrangements on all series of its mortgage bonds, with a company under the control of the former Chairman and Chief Executive Officer. Under the terms of the guarantee, the Company was protected from devaluation of the Canadian dollar against the Euro, to a maximum limit equal to the face value of each mortgage bond, and had relinquished any appreciation rights which may arise on the future settlement of its Euro denominated Mortgage Bonds. This guarantee was cancelled on December 6, 2010 and was settled. The Mortgage Bonds are recorded at the prevailing exchange rate at December 31, 2010. Included within the consolidated balance sheet is a liability of \$NIL (December 31, 2009 - liability of \$5.0 million) reflecting an increase 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 was no net earnings impact related to changes in currency value of the bonds and guarantee in 2009, but a net gain of \$2.3 million was recorded in 2010 after cancellation of the guarantee.

The corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral. The bonds mature between May 2013 and January 2015 and the Company has the option to redeem any series of bonds at their face amount anytime subsequent to the fifth anniversary of the issue of the bonds. The interest is payable semi-annually on June 30 and December 31. The bonds are issued in Euros and have been translated at period end exchange rates. The non-asset backed bonds decreased by \$55.3 million in 2010, which was the result of the reduction of the Euro.

The junior subordinated notes consist of EUR €25.0 million (\$33.1 million) (December 31, 2009 - EUR €25.0 million (\$37.6 million)) and USD \$20.0 million (\$20.0 million) (December 31, 2009 - USD \$20.0 million (\$21.0 million)) and 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, and a net worth covenant ratio, as calculated using the Company's consolidated financial statements prepared in accordance with IFRS. The interest coverage ratio and net worth covenant ratio were in default during 2009 and the first three quarters of 2010. Subsequent to period end the Company arranged new covenants that will restore the original maturity date of 2036.

**Construction Financing**

To December 31, 2010, the Company had \$40.2 million in construction financing outstanding relating to our development projects outlined earlier.

**Non-construction demand loans**

Non-construction demand loan balances decreased by \$61.4 million to \$12.9 million at December 31, 2010 compared to \$74.3 million at December 31, 2009. Of the decrease, \$45.0 million relates to an operating line repaid in Q3 2010, and approximately \$18.0 million assumed by HCREIT related to assets purchased by HCREIT.

**Shareholders' Equity**

Homburg Invest's shareholders' equity decreased \$98.4 million from \$200.1 million at December 31, 2009 to \$101.7 million at December 31, 2010. Of the decrease, \$18.0 million was Other Comprehensive Income resulting from foreign exchange movement, \$88.1 million was net loss in the period, and the remainder was an offsetting deferred tax recovery.

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 the accumulated Other Comprehensive Income (Loss) within shareholders' equity. At December 31, 2010, the cumulative gain was \$1.2 million; a decrease of \$18.0 million from the accumulated gain amount of \$19.2 million as at December 31, 2009.

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**LIQUIDITY, CAPITAL RESOURCES AND CAPITAL COMMITMENTS**

*Liquidity Risk*

Liquidity risk relates to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long term debts as they come due. As a result of global market conditions, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining 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 lower real estate values. The Company is significantly levered with a debt to equity ratio of 16.55:1 at December 31, 2010 (December 31, 2009 - 14.14:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the year ended December 31, 2010, Homburg Invest had total interest expense coverage from continuing operations of 0.84:1 (December 31, 2009 - 1.04:1) (calculated as property revenue, less property operating expenses and general and administrative expenses ÷ interest expense (excluding capitalized interest)).

The Company completed the creation of Homburg Canada Real Estate Investment Trust to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt through an IPO that closed on May 25, 2010. Cash proceeds from the IPO of approximately \$114.5 million were utilized to reduce debt and satisfy other obligations and as a result the Company is on-side with all debt covenants at December 31, 2010. The following table presents the Company's contractual obligations at December 31, 2010:

<i>(Millions)</i>		<b>Payments Due by Period</b>					
<b>Contractual Obligations</b>		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Later</b>
Head and ground leases		14.9	14.9	15.1	15.7	15.1	159.6
Mortgages:	Normal principal installments (i)	22.5	22.8	21.5	20.1	16.2	
	Interest (i)	49.9	42.6	39.7	35.4	32.2	
	Principal maturities (iii)	56.5	96.9	47.2	77.2	36.8	616.3
Bonds and junior subordinated notes:							
	Interest (i)	44.7	40.3	32.0	20.8	8.6	
	Principal maturities (vii)	106.2	82.8	145.8	132.6	132.6	
Non construction demand loans (iv)		12.9					
Construction financing (v)		40.2					
Construction purchase obligations (v)		6.4					
Other current and long term payables		1.0		10.3			
Working capital deficit (vi)		46.4					
		<b>401.6</b>	<b>300.3</b>	<b>311.6</b>	<b>301.8</b>	<b>241.5</b>	<b>775.9</b>

The Company's derivative instrument liability of \$21.8 million has been excluded from the above table as this liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which is 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 \$22.5 million; interest on mortgages and mortgage bonds of \$49.9 million; interest on corporate non asset backed bonds and junior subordinated notes of \$44.7 million; capital spending requirements on the income property portfolio, expected to approximate \$3.0 million; and operating lease commitments of \$14.9 million. Sources of finance towards these obligations include: cash on hand of \$13.6 million; net cash flow from operating activities before interest expense unrelated to development activities; cash generated from continued sales of completed condominium development projects; the potential sale of certain income producing and development properties, subject to reasonable prices being attained; the potential upward refinancing on certain mortgages and distributions received from the HCREIT.
- (ii) Through June 2012, the Company faces maturities of its mortgage bonds totalling €100.0 million (\$135.8 million), in addition to regularly scheduled principal payments and maturities related to other mortgage debts. The Company will seek to extend the maturity or otherwise refinance amounts due on its mortgage bonds through the issue of new mortgage bonds. However, there is no certainty that these efforts will be successful. The Company could meet any shortfall in the refinancing program through the sale of development assets, income producing properties, or additional units of HCREIT. However, the Company's liquidity needs may limit its ability to maximize the price to be realized on such asset sales.

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- (iii) Mortgage principal maturities falling due in 2011 total \$56.5 million, of which \$7.4 million has been repaid subsequent to year end and \$36.6 million is expected to be renewed at terms similar to those currently in place. The remaining \$19.9 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. The fair value of the investment property provided as security for this loan was \$17.4 million at December 31, 2010. Subsequent to year end, the Company temporarily ceased making scheduled principal payments of €0.2 million (\$0.3 million) on four mortgages totalling €44.3 million (\$62.7 million) with property fair values of €44.7 million (\$59.3 million), at December 31, 2010 related to certain underperforming properties in the Netherlands. The lenders' recourse in respect of these property mortgages is limited to the assets of the limited partnerships holding these loans. The Company is in discussions to renegotiate the amortizations of these loans with the lenders. All interest payments are current.
- (iv) The Company's non construction demand loans of \$12.9 million are secured by first or second charges over various investment properties not to exceed 65% of fair value.
- (v) The Company has \$254.3 million invested in investment properties under development and properties under development for resale that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling \$40.2 million at December 31, 2010. 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 \$6.4 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. For properties under development for resale, 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 and/or fair value adjustments.
- (vi) The working capital deficit of \$46.4 million consists of cash of \$13.6 million, related party receivable of \$7.4 million, and trade receivables of \$28.0 million, less payables of \$71.3 million, income taxes payable of \$8.2 million, related party payable of \$8.3 million, and notes payables of \$0.1 million, and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.
- (vii) The Company's junior subordinated notes, with a principal balance of \$53.1, were in default of the interest coverage ratio and the net worth covenant ratio during the period ended December 31, 2010, however a waiver from the lender was obtained. Subsequent to year end, the Company has agreed to new covenant terms to replace the waiver. However, the Company anticipates it will fall below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment. Accordingly, these principal maturities have been classified as falling due within 2011.

Should the above efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell additional development and/or income producing 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.

*Interest rate risk*

As a result of global capital market conditions, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$1,359.4 million in fixed rate debt and \$326.7 million in floating rate debt (before deferred financing charges) including \$52.0 million in demand and short term loans which are repayable in less than one year. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €148.3 million (\$196.6 million) (December 31, 2009 - EUR €159.9 million (\$240.5 million)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the year ended December 31, 2010, the impact on the consolidated income statement is a loss of \$0.7 million (December 31, 2009 - loss of \$7.5 million). The Company discloses the weighted average interest rate of maturing long term debt in the consolidated financial statements. With all other variables held constant, the Company has determined that a 1% change in interest rates would result in an annualized after tax change of \$2.2 million in the Company's earnings as a result of the impact on floating rate borrowings.

*Credit risk*

The Company's principal assets are commercial properties. Credit risk on tenant receivables of \$9.8 million (December 31, 2009 - \$20.1 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 36.8% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75.0 million (\$99.4 million) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company seeks replacement tenants. The Company's receivables are comprised primarily of current balances owing. The Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. The remaining significant receivables consist of taxes recoverable from various government agencies and revenue from the sale of development properties. The amounts due from government agencies represent current recoverable amounts and the revenue from the sale of development properties is supported by security letters of credit issued by the purchaser.



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*Currency risk*

Currency risk arises from assets and liabilities denominated in US dollars or Euros. The Company has 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, 2010, EUR €234.3 million (\$310.6 million) (December 31, 2009 - EUR €234.3 million (\$352.5 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, 2010 and December 31, 2009, 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 \$(2.3) million and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9.0 million after income taxes; and
- in the US dollar exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$0.3 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 36.8% (December 31, 2009 - 34.4%) of property revenue for the year. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The property leased to this tenant has a fair market value of \$592.5 million at December 31, 2010 (December 31, 2009 - \$676.9 million). 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.

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<u>Classification</u>	<u>Subsequent Measurement</u>	<u>Carrying Value 2010</u> (Millions)	<u>Fair Value 2010</u> (Millions)	<u>Carrying Value 2009</u> (Millions)	<u>Fair Value 2009</u> (Millions)
<b>Available for Sale</b>					
Long term investments: DEGI L.P. (a)	Fair value (L2)			\$ 13.1	\$ 13.1
<b>Held for Trading</b>					
Long term investments: others (b)	Fair value (L1)	\$ 1.6	\$ 1.6	\$ 6.3	\$ 6.3
Long term investments: HEEF B.V. (b)	Fair value (L3)	7.2	7.2	8.6	8.6
Cash and cash equivalents (c)	Fair value (L1)	13.6	13.6	32.5	32.5
Currency guarantee payable (c)	Fair value (L2)			(5.0)	(5.0)
Derivative instrument liability (c)	Fair value (L2)	(21.8)	(21.8)	(24.0)	(24.0)
		<u>\$ 0.6</u>	<u>\$ 0.6</u>	<u>\$ 18.4</u>	<u>\$ 18.4</u>
<b>Loans and Receivables</b>					
Restricted cash (d)	Amortized cost	\$ 4.1	\$ 4.1	\$ 23.2	\$ 23.2
Receivables and other (d)	Amortized cost	36.0	36.0	49.6	49.6
		<u>\$ 40.1</u>	<u>\$ 40.1</u>	<u>\$ 72.8</u>	<u>\$ 72.8</u>
<b>Other Financial Liabilities</b>					
Accounts payable and other (d)	Amortized cost	\$ 113.1	\$ 113.1	\$ 208.7	\$ 208.7
Mortgages (e)	Amortized cost	1,034.1	1,013.0	1,944.7	2,003.7
Mortgage bonds (e)	Amortized cost	135.8	138.0	190.2	207.9
Corporate non-asset backed bonds (e)	Amortized cost	411.0	413.8	466.3	462.1
Junior subordinated notes (e)	Amortized cost	53.1	75.4	58.6	88.1
Deferred financing charges (e)	Amortized cost	(15.5)		(23.1)	
Construction financing (d)	Amortized cost	40.2	40.2	95.0	95.0
		<u>\$ 1,771.8</u>	<u>\$ 1,793.5</u>	<u>\$ 2,940.4</u>	<u>\$ 3,065.5</u>

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

- (a) The investment in DEGI L.P. represents 10% of the limited partnership units. This investment was sold as part of the HCREIT transaction.
- (b) Long term investments are classified as held for trading and carried at their fair values. The fair value of the Company's investment in HEEF B.V. is based on the proportionate share of the reported net asset value of the B.V.. HEEF B.V. prepares its financial statements in accordance with IFRS using the fair value model. As such, the net asset value from the financial statements of the B.V. is reflective of its fair value. Management has determined that a reasonably possible change in the assumptions used to determine the fair value of the Company's investment in HEEF B.V. would not result in a significant impact to the consolidated financial statements. The fair values of other long term investments are based on quoted market prices. A loss of \$88 thousand resulting from the change in fair values of investments was recorded in the consolidated income statement during the year ended December 31, 2010 (2009 - loss of \$1.2 million).
- (c) Cash and cash equivalents, the currency guarantee payable and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$0.7 million during the year in the consolidated income statement (2009 - loss of \$7.5 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, 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.



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**TRANSACTIONS WITH RELATED PARTIES**

The Company's direct parent is Homburg Finance A.G. which is controlled by the former Chairman and Chief Executive Officer.

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

	<b>Three Months Ended Dec 31 2010 (Thousands)</b>	<b>Three Months Ended Dec 31 2009 (Thousands)</b>	<b>Year Ended Dec 31 2010 (Thousands)</b>	<b>Year Ended Dec 31 2009 (Thousands)</b>
Rental revenue earned	\$ (53)	\$ (467)	\$ (482)	\$ (788)
Interest Income (h)	\$ (147)	\$ (406)	\$ (574)	\$ (768)
Management agreement termination fee (o)	\$	\$	\$ 21,600	\$
Asset and construction management fees (r)	\$ 1,855	\$ 10,205	\$ 8,440	\$ 24,756
Property management fees incurred (r)	\$ 1,301	\$ 4,552	\$ 4,784	\$ 6,555
Insurance costs incurred	\$	\$ 594	\$ 514	\$ 1,281
Service fees incurred	\$ 1,415	\$ 5,732	\$ 4,915	\$ 6,489
Property acquisition / disposal fees incurred (r)	\$	\$ 1,060	\$ 1,302	\$ 1,065
Mortgage bond guarantee fees incurred (j)	\$ 15,062	\$ 1,510	\$ 17,134	\$ 2,898
Bond and other debt issue costs incurred	\$	\$	\$ 209	\$ 1,434
Interest costs incurred (g) (h) (k)	\$ 102	\$ 1,856	\$ 276	\$ 2,798

- b) Included in trade payables is \$0.4 million (accounts payable - December 31, 2009 - \$2.8 million) with companies commonly controlled by the former Chairman and Chief Executive Officer.
- c) Included in restricted cash and accounts payable is a deposit on a condominium unit of \$0.4 million (December 31, 2009 - \$0.4 million) from the former 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 former 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 \$0.3 million (December 31 2009 - \$0.3 million) were purchased from a corporation of which one of the Company's directors is affiliated.
- f) Included in accounts payable and other liabilities is \$21.9 million ( December 31, 2009 - \$0.2 million) with companies commonly controlled by the former Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
- g) Previously included in accounts payable and other liabilities and paid out in the fourth quarter (December 31, 2009 - EUR €2.4 million (\$3.6 million), was a demand note payable to a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 5.619% per annum).
- h) Previously included in accounts payable and other liabilities and paid out in the fourth quarter (December 31, 2009 - USD \$1.3 million (\$1.4 million)), was a demand note payable to a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 6.00% per annum.
- i) Previously included in accounts receivable and received in the fourth quarter (December 31, 2009 - EUR €6.8 million (\$10.2 million)) was a demand note receivable from a company commonly controlled by the former Chairman and Chief Executive Officer, which bore an interest rate of 7.25% per annum.
- j) The Company has ended a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the former Chairman and Chief Executive Officer, wherein it was protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum was 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds. During the year this contract was cancelled, thus eliminating the Company's liability for \$13.4 million, representing an approximate discount of 30% from the book value of the liability.
- k) Included in non-construction demand loans is a promissory note payable in the amount of EUR €6.3 million (\$8.3 million) (December 31, 2009 - EUR €7.5 million (\$11.3 million)). This amount relates to the Company's investment in Homburg Eastern European Fund B.V. The note bears interest at 6.0% per annum and has no specific repayment terms.
- l) During the year the Company acquired a company commonly controlled by the former Chairman and CEO, which held €19.8 million (\$26.2 million) in Homburg Bond 11. The bonds have been sold to unrelated third parties during the year.
- m) The Company has entered into head leases with HCREIT. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$1.1 million. The head leases commenced on May 25, 2010 and have a five year term subject to certain rights of termination upon third party leasing of such space. The Company has \$0.7 million included in property operating expenses for the period ended December 31, 2010.
- n) The Company has entered into a ground lease with HCREIT for a term of 25 years, with an option to renew for up to 3 additional periods of

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25 years each. The annual minimum rent payable for the ground lease is \$0.2 million. The Company has \$0.1 million included in property operating expenses for the period ended December 31, 2010.

The Company has pledged and hypothecated in favour of HCREIT, Units having an aggregate value of approximately \$6 million as collateral for its obligations under the Head Leases (the "Head Lease Pledge"), and Units having an aggregate value of approximately \$4 million as security for certain of its obligations in connection with remediation costs, if any, on certain income producing properties (the "Remediation Cost Pledge"). The number of Units pledged under the Head Lease Pledge reduces annually by 1/5 of the number of Units pledged. The number of Units pledged under the Remediation Cost Pledge will be reduced from time to time upon payment by the Company to HCREIT of any portion of the remediation costs, if any, it being understood that for each \$10 of the total remediation cost paid to HCREIT, the number of Units pledged under the Remediation Cost Pledge will be reduced by one Unit. Upon payment of the full Remediation Cost, the Company will be fully discharged of its obligations under the Remediation Cost Pledge and any remaining Units will be released from the Remediation Cost Pledge.

- o) As part of the HCREIT launch by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized within HCREIT. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of \$21.6 million provided for under the agreement, effective February 25, 2010 and this amount has been included in the loss from discontinued operations.
- p) During the year the Company sold its 50% interest in Homburg SNS Property Finance Limited Partnership to a company commonly controlled by the former Chairman and Chief Executive Officer for \$7.4 million in notes receivable.
- q) During the quarter the Company paid €0.8 million (\$1.1 million) for a 10% interest in a real estate fund that is managed by a company commonly controlled by the former Chairman and Chief Executive Officer.
- r) **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 former Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:

**Property Management Service Fees**

- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) 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**

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**Homburg Invest Inc.**  
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- a) Subsequent to year end, the Company secured a \$10.0 million operating line secured by units in HCREIT.
- b) Subsequent to year end HCREIT completed a public offering of Units on a bought deal basis. HCREIT issued 8,597,500 units, including 1,447,500 units issued through the exercise of the full over allotment option by the underwriters. Concurrent with the issue of 8,597,500 units by HCREIT, the Company also sold 2,500,000 units for gross proceeds of \$28.5 million. The issue by the REIT, and the sale by the Company will reduce the ownership of the Company from 33.7% to approximately 23.1%, which will result in a loss of approximately \$11.5 million. The net proceeds will be utilized to repay the \$10.0 million outlined in Note a) above, and for general corporate purposes.
- c) Subsequent to year end the Company arranged new covenants for the Junior Subordinated notes of \$53.1 million. The Company anticipates it will fall below these thresholds in the first quarter of 2011 in which case the lender would have the right to demand repayment. As at December 31, 2010 the Junior Subordinated notes are reflected as maturing in 2011. The Company has a redemption option from 2011 to maturity.
- d) Subsequent to year end Mr. Richard Homburg, Chairman and CEO and Mr Richard Stolle, Chief Operating Officer, resigned from Homburg Invest Inc.
- e) Subsequent to year end, the Company temporarily ceased making scheduled principal payments of €0.2 million (\$0.3 million) on four mortgages totalling €44.3 million (\$62.7 million) with property fair values of €44.7 million (\$59.3 million), at December 31, 2010 related to certain underperforming properties in the Netherlands. The lenders' recourse in respect of these property mortgages is limited to the assets of the limited partnerships holding these loans. The Company is in discussions to renegotiate the amortizations of these loans with the lenders. All interest payments are current.
- f) Subsequent to year end the Company agreed, pursuant to the exercise of certain "buy-sell" provisions in certain joint venture agreements with Cedar Shopping Centers, Inc. (NYSE: CDR) ("Cedar"), that the Company will sell its 80% interest in one of the nine properties owned by the Homburg/Cedar joint ventures (Homburg 80%-Cedar 20%) to Cedar. Homburg Invest will also purchase Cedar's 20% interest in the remaining eight joint venture properties. This transaction is expected to close in the second quarter of 2011.

#### **CRITICAL ACCOUNTING ESTIMATES**

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

##### *Judgments*

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

- i) Operating lease commitments - Company as lessor.  
The Company has entered into commercial and residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.
- ii) Consolidation and proportionate consolidation of Limited Partnerships (L.P.'s).  
A large portion of the Company's investment properties are held in L.P.'s. In certain of these L.P.'s, the Company is the sole limited partner and it has been determined that the Company is able to exercise full control. Accordingly, these entities are consolidated. In other partnerships, the Company's share is less than 100%. Homburg LP Management Inc., a company directly and indirectly controlled by the former Chairman and CEO, acts as the general partner in all partially owned L.P.'s, except the Cedar joint venture in which the general partner is related to the minority limited partner. The Company has concluded that it is able to exercise joint control over all entities which are less than 100% owned, primarily established by terms which require the unanimous consent of all partners for major partnership decisions. Accordingly, these entities are proportionately consolidated.

##### *Estimates and assumptions*

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

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

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- ii) Valuation of investment properties under development. Prospectively from January 1, 2009, investment properties being constructed or developed are carried at fair value, to the extent that fair value is reliably determinable, with changes in fair value recognized in the Consolidated Income Statement. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. Fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. The fair value of land to be developed for future use as an investment property is based on recent comparable market transactions, plus costs incurred that enhance the land value. Prior to January 1, 2009, the Company applied the revaluation model for its development properties (other than those being developed for resale). Under the revaluation model, the development properties were valued at fair value if and when such value could be reliably determined. If fair value could not be reliably determined, the cost approach was followed. Under the cost approach the value of a development property was estimated by summing the land value and the value of capital expenditures, including capitalized interest. The Company also assessed these properties for impairment.
- iii) Valuation of properties under development for resale. Properties under development for resale are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. Estimated selling prices are supported by recent comparable market transactions.
- iv) Income taxes. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In addition, the Company operates in a number of jurisdictions and its legal structure is complex. The computation of the Company's income tax provision and deferred tax balances involves many factors including interpretation of relevant tax legislation in each of the jurisdictions in which the Company operates. When applicable, the Company adjusts the previously recorded tax provision and associated tax assets and liabilities to reflect changes in estimates and for any tax assessments levied.
- v) Fair value of financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
- vi) Provisions. The Company has entered into certain operating lease commitments with respect to head leases which are potentially onerous, depending on the Company's ability to recover its obligations through sub-leases with sub-tenants. The Company estimates the amounts it may be able to recover using current market data concerning leasing rates and tenant incentives and estimates of time expected to sub-lease any vacant space. Changes in assumptions about these factors could affect the reported amount of provisions.

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

#### **CHANGES IN ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

##### *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*

These revisions / amendments are effective for fiscal years beginning on or after July 1, 2009 and must be adopted concurrently. The revision to IFRS 3 clarifies the distinction between a business combination and an asset acquisition and requires that transaction costs incurred on business combinations be expensed when incurred, which will impact the amount of goodwill recognized and the reported results in the period an acquisition occurs and prospectively. The amended IAS 27 clarifies the circumstances under which an entity must consolidate another entity; the accounting for changes in the level of ownership of a subsidiary, including loss of control; and, the required disclosure regarding the nature of the relationship.

#### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Over Financial Reporting - Guidance for Smaller Public Companies. Based on these evaluations, Management, including the CEO and CFO conclude that as at December 31, 2010:

- (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.

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**Homburg Invest Inc.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Year Ended December 31, 2010**

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

**MATERIAL CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There were no material changes in internal controls over financial reporting in 2010. 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 our Annual Information Form (AIF) is on our website at [www.homburginvest.com](http://www.homburginvest.com) and at SEDAR at [www.sedar.com](http://www.sedar.com).
- (b) The Company continues to prepare its financial statements in accordance with International Financial Reporting Standards and makes its financial statements available at SEDAR at [www.sedar.com](http://www.sedar.com).
- (c) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at December 31, 2010, Homburg Invest was authorized to issue an unlimited number of Class A Subordinate Voting Shares, an unlimited number of Class B Multiple Voting Shares and an unlimited number of Class A and B preferred shares, issuable in series, with rights and privileges to be determined upon issue. On that date, 17,092,961 Class A Subordinate Voting Shares and 3,146,438 Class B Multiple Voting Shares were issued for a recorded value of \$701.0 million.

**2011 OUTLOOK AND PROPOSED TRANSACTIONS**

The Company continues to "think globally, but act locally". Homburg Invest will continue to pursue its strategy of highlighting its local assets, thereby focusing the market's attention on the strong underlying values in the portfolio.

Subsequent to year-end, Homburg Invest consolidated its holdings in the US in order to facilitate Homburg Invest's ability to fully implement its strategy in that market. Those efforts continue. The Company is also considering opportunities to highlight the value of its European and Baltic States' properties.

Homburg Invest also continues to evaluate its land holdings and properties under development and is looking for opportunities to monetize its positions.

Once again, the objective for 2011 is to reduce debt, and improve net operating income of its portfolio.

In addition, with the tightening of the capital markets, the Company considers it prudent to raise cash and will therefore continue to explore various alternatives to develop the underlying value of its assets. These alternatives include a range of options, including partnering with other investors, sales of portions of specific assets or projects, delays in starting certain developments and the divestiture of underperforming assets. The Company may also issue new equity bonds in order to achieve its goals.

As outlined in the overview, the Company remains focused on the strategy announced in December 2009. Subsequent to the end of the year, it reduced its voting ownership in HCREIT to approximately 23.1%.

The resignations on March 22, 2011 of Richard Homburg as Chairman of the Board, Chief Executive Officer and Director and Richard Stolle as President and Chief Operating Officer were accepted with regret.

It remains business as usual at Homburg Invest. However, the change in leadership presents an opportunity for the Company to make the transition from an entrepreneurial organizational structure to a more typical operating structure. As an example, the Company has formalized the investment committee process, an adjustment that will provide greater structure to the Company's decision-making processes relative to investments in its portfolio.

As economic factors improve, the Company is focused on improving the occupancy levels, and thus the net operating income of its European and Baltic States' properties. Germany continues to have strong occupancy levels and solid net operating income and is seeing the first results of the recovery plan.

Although the global economic and market environment remains fragile, it is improving. Homburg Invest looks forward to delivering on its strategy in this stronger market environment.

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"Signed"

Jan Schöningh, MBA  
CEO

\_\_\_\_\_  
"Signed"

James F. Miles, CA  
Vice-President Finance and CFO





**FORM 52-109F1**  
**Certification of Annual Filings**

I, Jan Schöningh, President 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, 2010.
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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying 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.



- 5.1 **Control framework:** The control framework the issuer's other certifying officer 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 officer and I have:
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the issuer has disclosed in its annual MD&A:
    - (i) our conclusions about the effectiveness of ICFR at the financial year end based on that evaluation; and
    - (ii) N/A
7. **Reporting changes in ICFR:** The issuer has disclosed in its annual MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer and I have disclosed, based on our most recent 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, 2011

  
\_\_\_\_\_  
**Jan Schöningh**  
President and Chief Executive Officer  
Homburg Invest Inc.





**FORM 52-109F1**  
**Certification of Annual Filings**

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

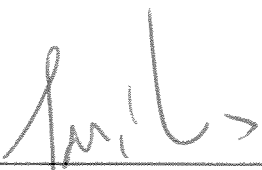
1. **Review:** I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Homburg Invest Inc., (the issuer) for the financial year ended December 31, 2010.
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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer and I have, as at the financial year end:
  - (a) designed DC&P, or caused 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.

A handwritten signature in dark ink, appearing to be "JF Miles", located at the bottom right of the page.



- 5.1 **Control framework:** The control framework the issuer's other certifying officer 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 officer and I have:
- (a) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's DC&P at the financial year end and the issuer has disclosed in its annual MD&A our conclusion about the effectiveness of DC&P at the financial year end based on that evaluation; and
  - (b) evaluated, or caused to be evaluated under our supervision, the effectiveness of the issuer's ICFR at the financial year end and the 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, 2010 and ended on December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.
8. **Reporting to the issuer's auditors and board of directors or audit committee:** The issuer's other certifying officer and I have disclosed, based on our most recent 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, 2011



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