

**Homburg Invest Inc.
Consolidated Interim Financial Statements
International Financial Reporting Standards
(Unaudited - Prepared by Management)**

June 30, 2010

The interim consolidated financial statements for the six months ended June 30, 2010 and June 30, 2009 have not been reviewed by the Company's external auditors.

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Homburg Invest Inc.
Consolidated Interim Balance Sheet
(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)	Note	June 30 2010	December 31 2009
Assets			
Non-current assets			
Investment properties		\$ 1,527,337	\$ 2,739,415
Investment properties under development		248,966	245,896
Investments, at fair market value	4	8,044	27,942
Investment in an associate, at equity	5	212,762	
Restricted cash		16,842	23,159
Deferred tax assets	8	14,076	
		<u>2,028,027</u>	<u>3,036,412</u>
Current assets			
Cash		18,351	32,569
Properties under development for resale		64,238	73,957
Receivables and other	3	48,614	49,639
		131,203	156,165
Assets classified as held for sale	9	33,279	72,957
		<u>164,482</u>	<u>229,122</u>
Total assets		<u>\$ 2,192,509</u>	<u>\$ 3,265,534</u>
Equity and Liabilities			
Total equity	10	<u>\$ 125,551</u>	<u>\$ 200,071</u>
Non-current liabilities			
Long term debt	7	1,560,419	2,017,440
Derivative financial instruments	13	26,730	24,045
Deferred tax liabilities	8		4,759
Other liabilities	6	11,069	12,838
Provisions		16,341	17,124
		<u>1,614,559</u>	<u>2,076,206</u>
Current liabilities			
Accounts payable and other liabilities	6	62,219	195,891
Income taxes payable	8	12,620	13,760
Construction financing		99,763	94,999
Current portion of long term debt	7	233,233	624,284
Provisions		19,810	16,965
		<u>427,645</u>	<u>945,899</u>
Liabilities associated with assets classified as held for sale	9	24,754	43,358
		<u>452,399</u>	<u>989,257</u>
Total liabilities		<u>2,066,958</u>	<u>3,065,463</u>
Total equity and liabilities		<u>\$ 2,192,509</u>	<u>\$ 3,265,534</u>
Commitments	15		
Contingent liabilities	16		
Subsequent events	18		

Approved by the Board, August 13, 2010

"Signed"
Richard Homburg, Phzn., D. Comm.
Director

"Signed"
Edward P. Ovsenny
Director

Homburg Invest Inc.
Consolidated Interim Income Statement
Six Months Ended June 30
(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)	Note	Three Mos. Ended June 30 2010	Three Mos. Ended June 30 2009	Six Mos. Ended June 30 2010	Six Mos. Ended June 30 2009
Property revenue	17	\$ 31,217	\$ 47,898	\$ 66,756	\$ 91,441
Sale of properties developed for resale		<u>5,175</u>	<u>15,579</u>	<u>10,633</u>	<u>39,790</u>
Total revenues		<u>36,392</u>	<u>63,477</u>	<u>77,389</u>	<u>131,231</u>
Property operating expenses	17	4,613	8,612	9,856	13,732
Cost of sale of properties developed for resale		<u>7,872</u>	<u>25,884</u>	<u>13,111</u>	<u>48,449</u>
		<u>12,485</u>	<u>34,496</u>	<u>22,967</u>	<u>62,181</u>
Gross income from operations		23,907	28,981	54,422	69,050
General and administrative		(4,430)	(3,344)	(7,996)	(6,956)
Stock based compensation		(25)	(48)	(50)	(96)
Other income, net		(110)	415	4,413	779
Dividend income		(328)	375	107	382
Share of income of an associate	5	1,632		1,632	
Gain (loss) on sale of investments		(196)	648	4,307	2,250
Net adjustment to fair value of:					
Investment properties		(2,051)	(40,132)	(1,118)	(37,870)
Held for trading financial assets	4, 13	307	2,288	662	(935)
Derivative financial instruments	13	(1,788)	3,896	(6,744)	(4,811)
Interest expense	6, 7	(25,334)	(31,077)	(55,090)	(62,852)
Foreign exchange gain		6,519	3,589	19,707	10,780
Change in provision		<u>(2,388)</u>	<u> </u>	<u>(2,388)</u>	<u> </u>
Income (loss) from continuing operations before income taxes		<u>(4,285)</u>	<u>(34,409)</u>	<u>11,864</u>	<u>(30,279)</u>
Income tax expense (recovery)	8	<u>5,266</u>	<u>(5,992)</u>	<u>5,155</u>	<u>(4,896)</u>
Net income (loss) from continuing operations		(9,551)	(28,417)	6,709	(25,383)
Net income (loss) from discontinued operations after tax	9	<u>(103,101)</u>	<u>215</u>	<u>(101,576)</u>	<u>2,725</u>
Net loss		<u>\$ (112,652)</u>	<u>\$ (28,202)</u>	<u>\$ (94,867)</u>	<u>\$ (22,658)</u>
Earnings (loss) per share	11				
Per Class A Subordinate Voting Share and Class B Multiple Voting Share:					
Basic and Diluted					
Net earnings (loss) from continuing operations		<u>\$ (0.51)</u>	<u>\$ (1.44)</u>	<u>\$ 0.25</u>	<u>\$ (1.29)</u>
Net earnings (loss) from discontinued operations		<u>\$ (5.09)</u>	<u>\$ 0.01</u>	<u>\$ (5.04)</u>	<u>\$ 0.14</u>
Net earnings (loss) per share		<u>\$ (5.60)</u>	<u>\$ (1.43)</u>	<u>\$ (4.79)</u>	<u>\$ (1.15)</u>

Homburg Invest Inc.
Consolidated Interim Statement of Comprehensive Income
Six Months Ended June 30
(Unaudited - Prepared by Management)

	Three Mos. Ended June 30 2010	Three Mos. Ended June 30 2009	Six Mos. Ended June 30 2010	Six Mos. Ended June 30 2009
<i>(CAD \$ thousands except per share amounts)</i>				
Net loss	\$ <u>(112,652)</u>	\$ <u>(28,202)</u>	\$ <u>(94,867)</u>	\$ <u>(22,658)</u>
Other comprehensive income:				
Unrealized foreign currency translation loss	(14,437)	(11,563)	(43,617)	(45,844)
Deferred income tax (expense) recovery (Note 8, 10)	<u>(6,235)</u>	<u>3,748</u>	<u>8,217</u>	<u>25,122</u>
	<u>(20,672)</u>	<u>(7,815)</u>	<u>(35,400)</u>	<u>(20,722)</u>
Foreign currency gain on financial instruments designated as hedges of self sustaining foreign operations	<u>21,442</u>	<u>6,204</u>	<u>52,540</u>	<u>23,454</u>
Other comprehensive income (loss) (Note 10)	<u>770</u>	<u>(1,611)</u>	<u>17,140</u>	<u>2,732</u>
Comprehensive income (loss)	\$ <u>(111,882)</u>	\$ <u>(29,813)</u>	\$ <u>(77,727)</u>	\$ <u>(19,926)</u>

Homburg Invest Inc.
Consolidated Interim Statement of Changes in Equity
Six Months Ended June 30
(Unaudited - Prepared by Management)
(CAD \$ thousands except per share amounts)

	Other Paid In Capital	Revaluation Surplus	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total
December 31, 2008	11,489	33,547	698,535	7,206	649	(140,527)	610,899
Change in accounting policies (Note 3)		(33,547)				33,547	
Comprehensive income (loss)					18,575	(449,262)	(430,687)
Dividend re: DIM Vastgoed N.V. dividend guarantee						(260)	(260)
Acquisition & cancellation of own share Homburg Capital Securities A (Note 10c)	22,946					33,547	21,319
Acquisition & cancellation of own shares			(6,750)	5,404		(1,627)	(1,346)
Stock based compensation				146			146
December 31, 2009	34,435		691,785	12,756	19,224	(558,129)	200,071
Comprehensive income					17,140	(94,867)	(77,727)
Shares issued re DIM 2010	(11,489)		11,489				
Homburg Capital Securities A (Note 10c)	4,681					(1,524)	3,157
Stock based compensation				50			50
June 30, 2010	\$ 27,627	\$	\$ 703,274	\$ 12,806	\$ 36,364	\$ (654,520)	\$ 125,551

Homburg Invest Inc.
Consolidated Interim Statement of Cash Flows
Six Months Ended June 30

(CAD \$ thousands except per share amounts)	Note	Three Mos. Ended June 30 2010	Three Mos. Ended June 30 2009	Six Mos. Ended June 30 2010	Six Mos. Ended June 30 2009
Cash obtained from (used in)					
Operating activities					
Net loss from continuing operations		\$ (9,551)	\$ (28,417)	\$ 6,709	\$ (25,383)
Items not affecting cash:					
Realized valuation changes		196	(648)	(4,307)	(2,250)
Fair market value changes on investment properties		2,051	40,132	1,118	37,870
Change in provisions		2,388		2,388	
Loss (gain) on derivative instruments		1,788	(3,896)	6,744	4,811
Amortization of financing fees		938	934	2,120	1,773
Deferred rental income		2,040	519		(514)
Deferred income taxes		4,000	(6,703)	3,404	(8,522)
Stock based compensation		25	48	50	96
Fair value change in financial assets		(307)	(2,288)	(662)	935
Accretion of discounted liabilities			416		497
Foreign exchange gain		(6,519)	(3,589)	(19,707)	(10,780)
		(2,951)	(3,492)	(2,143)	(1,467)
Change in non-cash working capital and other	12	4,310	(43)	(59,181)	31,385
Net cash from (used in) continuing operations		1,359	(3,535)	(61,324)	29,918
Net cash from discontinued operations	9	2,379	2,405	9,396	(14,044)
Net cash from operating activities		<u>3,738</u>	<u>(1,130)</u>	<u>(51,928)</u>	<u>15,874</u>
Investing activities					
Investment in investment properties		(29,895)	(2,976)	(3,896)	(4,672)
Proceeds on sale of investment properties		114,511	5,588	114,511	13,946
Decrease in restricted cash		6,265	3,199	6,317	9,838
Proceeds on sale of investments		10,824		10,824	
Investment in development properties		(8,333)	(8,896)	(14,993)	(18,247)
Discontinued operations	9		(10,697)		(23,857)
Net cash used in investing activities		<u>93,372</u>	<u>(13,782)</u>	<u>112,763</u>	<u>(22,992)</u>
Financing activities					
Increase (decrease) in demand loans		(61,929)	2,888	(63,936)	(8,277)
Increase (decrease) in mortgages payable		(10,107)	(6,502)	25,354	(12,846)
Proceeds (repayment) from bonds		(18,787)		(27,629)	11,043
Decrease (increase) in related party receivable		(11,220)	214	(8,396)	(11,035)
Increase in deferred financing charges		2,920	(499)	1,503	(767)
Repurchase of common shares and issue costs			(1,219)		(1,346)
Decrease in related party payable			(8,956)		(9,051)
Increase (decrease) in construction financing		5,501	1,999	4,764	9,206
Homburg Capital Securities A proceeds	10d	13	18,991	4,118	25,868
Discontinued operations	9	(10,831)	(4,623)	(10,831)	(5,698)
Net cash from financing activities		<u>(104,440)</u>	<u>2,293</u>	<u>(75,053)</u>	<u>(2,903)</u>
Increase (decrease) in cash		(7,330)	(12,619)	(14,218)	(10,021)
Cash, beginning of period		25,681	18,957	32,569	16,359
Cash, end of period		<u>\$ 18,351</u>	<u>\$ 6,338</u>	<u>\$ 18,351</u>	<u>\$ 6,338</u>
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Homburg Invest Inc.
Notes to IFRS Consolidated Interim Financial Statements
June 30, 2010
(Unaudited - Prepared by Management)
(CAD \$ thousands except per share amounts)

1. Basis of financial statement presentation

These unaudited consolidated interim financial statements have been prepared by management in accordance with IAS 34, Interim Financial Reporting. These financial statements include the accounts of Homburg Invest Inc. and its subsidiaries, wholly owned partnerships and partially owned partnerships (collectively the "Company"). These financial statements do not contain all disclosures required by IFRS for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2009.

The preparation of interim financial statements in conformity with IAS 34 requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

2. 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 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.

3. Receivables and other

	June 30	December 31
	2010	2009
Trade receivables	\$ 29,559	\$ 35,341
Related party receivable (Note 14h)		10,220
Notes receivable	538	1,601
Prepays	1,510	2,477
Related party receivable (Note 14b)	17,007	
	\$ 48,614	\$ 49,639

4. Investments, at fair market value

	June 30	December 31
	2010	2009
Cedar Shopping Centers, Inc.	\$ 565	\$ 607
HEEF B.V.	7,479	8,605
DEGI L.P.		13,059
DIM Vastgoed N.V., October 2010 closing		5,671
	\$ 8,044	\$ 27,942

Homburg Invest Inc.
Notes to IFRS Consolidated Interim Financial Statements
June 30, 2010
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5. Investment in an associate, at equity

	June 30 2010
Homburg Canada Real Estate Investment Trust (41.26% interest)	
Balance, beginning of the year	\$ NIL
Acquisition of investment	212,519
Distributions receivable	(1,389)
Share of net income (loss)	1,632
Balance at June 30, 2010	<u>\$ 212,762</u>

On May 25, 2010, the Company obtained a significant influence investment in Homburg Canada Real Estate Investment Trust ("HCREIT"). The company holds 41.26% of the HCREIT units at June 30, 2010.

The Company's share of the results of the associate and its aggregated assets and liabilities as at and for the period ended June 30, 2010 under IFRS are as follows:

	June 30 2010
Non-current assets	\$ 436,552
Current assets	27,970
	<u>\$ 464,522</u>
Non-current liabilities	\$ 236,792
Current liabilities	22,691
	<u>\$ 259,483</u>
Revenue	\$ 6,357
Bargain purchase gain	\$ 69,380
Net income	<u>\$ 1,632</u>

The acquisition of the investment was recorded at the fair value of the HCREIT units received on May 25, 2010 of \$143,439 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 June 30, 2010 was \$143,711 based on published price quotations for Homburg Canada Real Estate Investment Trust (TSE: 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 June 30, 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.

6. Accounts payable and other liabilities

	June 30 2010	December 31 2009
Current amounts		
Trade payables	\$ 41,037	\$ 93,531
Non-construction demand loans (Note 14j)	8,933	74,310
Notes payable	139	2,999
Prepaid rents and deposits	6,754	13,446
Security deposits	498	732
Homburg Capital Securities A (Note 10)	1,341	2,760
Shareholders of DIM Vastgoed N.V., due October 2010		2,987
Related party payable (Note 14b, f & g)	3,517	5,126
	<u>\$ 62,219</u>	<u>\$ 195,891</u>
Non-current amounts		
Long term payables	\$ 9,983	\$ 11,732
Homburg Capital Securities A (Note 10)	1,086	1,106
	<u>\$ 11,069</u>	<u>\$ 12,838</u>

The Company has available credit facilities of \$15,000 (December 31, 2009 - \$78,000) of which \$NIL (December 31, 2009 - \$63,000) is being utilized at June 30, 2010. Of these facilities, \$15,000 (December 31, 2009 - \$15,000) is with a company controlled by the Chairman and Chief Executive Officer and is undrawn at June 30, 2010.

Homburg Invest Inc.
Notes to IFRS Consolidated Interim Financial Statements
June 30, 2010
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(CAD \$ thousands except per share amounts)

7. Long term debt

	June 30 2010	December 31 2009
Secured debt		
Mortgages (a)	\$ 1,226,652	\$ 1,944,686
Mortgage bonds (b)	<u>157,283</u>	<u>195,274</u>
	<u>1,383,935</u>	<u>2,139,960</u>
Unsecured debt		
Corporate non-asset backed bonds (c)	375,139	466,302
Junior subordinated notes (d)	<u>52,966</u>	<u>58,591</u>
	<u>428,105</u>	<u>524,893</u>
	1,812,040	2,664,853
Less: Deferred financing charges, net of accumulated amortization of \$12,341 (December 31, 2009 - \$12,161)	<u>(18,388)</u>	<u>(23,129)</u>
	<u>1,793,652</u>	<u>2,641,724</u>
Less: current portion	<u>233,233</u>	<u>624,284</u>
Long term debt	<u>\$ 1,560,419</u>	<u>\$ 2,017,440</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 1.72% and for fixed rate long term debt was 5.95% (December 31, 2009 - variable - 1.79%, fixed - 6.00%). Scheduled principal installments and principal maturities on long term debt are as follows:

	<u>Mortgages</u>		Bonds and Junior Subordinated Notes	Total	Weighted Average Interest Rate of Maturing Debt
	<u>Normal Principal Installments</u>	<u>Principal Maturities</u>			
Within 1 year	\$ 21,349	\$ 158,918	\$ 52,966	\$ 233,233	5.61%
1-2 years	30,458	130,425	157,283	318,166	5.92%
2-3 years	22,385	108,984	64,008	195,377	5.66%
3-4 years	20,057	99,811	204,790	324,658	6.42%
4-5 years	19,202	31,109	106,340	156,651	6.85%
Later		583,955		583,955	4.15%
	<u>\$ 113,451</u>	<u>\$ 1,113,202</u>	<u>\$ 585,387</u>	<u>\$ 1,812,040</u>	

Mortgage principal maturities includes a loan of \$131,344 which was in default of its lending covenants at June 30, 2010 and accordingly has been classified as falling due within 2010. The fair market value of the investment property securing the mortgage is \$15,960 at June 30, 2010. Specific investment properties with a fair market value of \$1,620,516 (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:

		June 30 2010	December 31 2009
US dollar denominated	USD	\$ <u>90,094</u>	\$ <u>90,861</u>
	CAD	\$ <u>94,454</u>	\$ <u>95,349</u>
EURO denominated	EUR	€ <u>867,532</u>	€ <u>843,708</u>
	CAD	\$ <u>1,110,354</u>	\$ <u>1,269,021</u>

b) Mortgage bonds payable

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	June 30 2010	December 31 2009	June 30 2010	December 31 2009
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	25,611	30,097
HMB5	Dec. 31, 2011	7.50%	EUR €20,010	EUR €20,010	25,611	30,097
HMB6	June 30, 2012	7.50%	EUR €31,230	EUR €31,230	39,971	46,973
HMB7	June 30, 2012	7.25%	EUR €31,230	EUR €31,230	<u>39,971</u>	<u>46,973</u>
					131,164	190,238
Currency guarantee payable					<u>26,119</u>	<u>5,036</u>
					<u>\$ 157,283</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.

Homburg Invest Inc.
Notes to IFRS Consolidated Interim Financial Statements
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(CAD \$ thousands except per share amounts)

7. Long term debt (cont.)

c) Corporate non-asset backed bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>June 30</u> <u>2010</u>	<u>December 31</u> <u>2009</u>	<u>June 30</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
HB8	May 31, 2013	7.00%	EUR €50,010	EUR €50,010	\$ 64,008	\$ 75,220
HB9	October 31, 2013	7.00%	EUR €60,000	EUR €60,000	76,794	90,246
HB10	February 15, 2014	7.25%	EUR €100,005	EUR €100,005	127,996	150,418
HB11	January 15, 2015	7.25%	EUR €83,085	EUR €100,005	106,340	150,418
					<u>\$ 375,138</u>	<u>\$ 466,302</u>

The Corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral.

d) Junior subordinated notes

The junior subordinated notes consist of EUR €25,000 (\$31,998) (December 31, 2009 - EUR €25,000 (\$37,603)) and USD \$20,000 (\$20,968) (December 31, 2009 - USD \$20,000 (\$20,988)) 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 two quarters of 2010. A waiver from the lender was obtained until April 30, 2011 and the Company is currently negotiating new covenant terms to replace the waiver.

8. 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>Six Months</u> <u>Ended</u> <u>June 30</u> <u>2010</u>	<u>Six Months</u> <u>Ended</u> <u>June 30</u> <u>2009</u>
Income before income taxes	\$ <u>11,864</u>	\$ <u>(30,279)</u>
Combined Canadian federal and provincial statutory income tax rate	32.25 %	31.50 %
Income tax expense (recovery) at the above tax rate	\$ 3,826	\$ (9,538)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains and market value changes	(531)	(1,597)
Unrecognized losses and foreign tax credits	476	
Provincial capital tax (net of income tax recovery)	204	54
Unrecognized taxable temporary difference	1,909	
Effect of rate change on temporary differences	(473)	231
Non-deductible portion of unrealized valuation changes	(81)	195
Effect of difference in statutory tax rates of subsidiaries	327	4,466
Other	(502)	1,293
Income tax expense (recovery)	<u>\$ 5,155</u>	<u>\$ (4,896)</u>
Comprised of:		
Current income and capital taxes	1,751	3,626
Deferred income taxes	3,404	(8,522)
	<u>\$ 5,155</u>	<u>\$ (4,896)</u>

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>June 30</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
Deferred tax assets		
Loss carry forwards & foreign tax credits	\$ 38,429	\$ 36,882
Deferred revenues and costs	24,353	12,512
Unrealized losses		14,358
	<u>62,782</u>	<u>63,752</u>
Deferred tax liabilities		
Homburg Capital Securities A	(10,570)	(9,570)
Unrealized gains	(12,728)	
Investment properties	(25,408)	(58,941)
	<u>(48,706)</u>	<u>(68,511)</u>
Net deferred tax asset (liability)	<u>\$ 14,076</u>	<u>\$ (4,759)</u>

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8. Income taxes (cont.)

The Company has non-capital loss carryforwards of \$163,469, the benefit of which has been recognized. These expire as follows: \$499 between 2013 and 2027; \$9,806 in 2028; \$107,943 in 2029 and \$45,221 in 2030 and beyond. The Company also has foreign tax credits of \$4,099 which expire between 2015 and 2018, the benefit of which has not been recognized.

9. 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 statements amounts associated with the sale plus certain other Canadian investment properties held for sale from December 31, 2009 and presented as discontinued.

	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Income statement		
Property revenue	\$ 57,369	\$ 73,916
Sale of properties developed for resale	<u>1,738</u>	<u>73,916</u>
Total revenue	<u>59,107</u>	<u>73,916</u>
Property operating expenses	31,208	35,667
Cost of sale or properties developed for resale	<u>1,654</u>	<u>35,667</u>
	<u>32,862</u>	<u>35,667</u>
Gross income from operations	26,245	38,249
Other income	961	(25)
Interest expense	(12,827)	(18,253)
General and administrative	(3,659)	(4,832)
Fair value adjustment on investment properties	<u>23,092</u>	<u>(14,116)</u>
Net income from discontinued operations before income taxes	33,812	1,023
Current income tax	(116)	(116)
Deferred income tax	<u>9,300</u>	<u>(1,586)</u>
	24,512	2,725
Loss on disposal of discontinued operations	(150,888)	
Attributable tax expense	<u>(24,800)</u>	<u>2,725</u>
Net income (loss) from discontinued operations after tax	<u>\$ (101,576)</u>	<u>\$ 2,725</u>
	June 30 2010	December 31 2009
Assets and liabilities held for sale		
Investment properties	\$ 16,899	\$ 66,365
Restricted cash		5,324
Deferred income tax asset	15,030	
Receivable and others	<u>1,350</u>	<u>1,268</u>
	<u>\$ 33,279</u>	<u>\$ 72,957</u>
Long term debt	\$ 10,199	\$ 21,030
Deferred income tax liabilities		6,618
Income taxes payable	14,552	14,552
Accounts payable	<u>3</u>	<u>1,158</u>
	<u>\$ 24,754</u>	<u>\$ 43,358</u>
Statement of cash flows		
Operating activities	<u>\$ 9,396</u>	<u>\$ (14,044)</u>
Investing activities	<u>\$</u>	<u>\$ (23,857)</u>
Financing activities	<u>\$ (10,831)</u>	<u>\$ (5,698)</u>

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10. Shareholders' equity

	June 30	December 31
	2010	2009
Deficit	\$ (654,520)	\$ (558,129)
Accumulated other comprehensive income (a)	<u>36,364</u>	<u>19,224</u>
	(618,156)	(538,905)
Share capital (b)	703,274	691,785
Other paid in capital (c)	27,627	34,435
Contributed surplus	<u>12,806</u>	<u>12,756</u>
	\$ <u>125,551</u>	\$ <u>200,071</u>

a) Accumulated other comprehensive income

	June 30	December 31
	2010	2009
Net unrealized foreign currency translation gains	\$ 33,044	\$ 23,890
Change in fair value of available for sale financial assets		231
Net unrealized deferred tax asset (liability)	<u>3,320</u>	<u>(4,897)</u>
	\$ <u>36,364</u>	\$ <u>19,224</u>

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

The following are rates of exchange in effect:

	\$1.00 USD	€1.00 EUR
June 30, 2010	\$ 1.04840	\$ 1.27990
December 31, 2009	\$ 1.04940	\$ 1.50410
Average rate for six months 2010	\$ 1.03479	\$ 1.37676
Average rate for six months 2009	\$ 1.20559	\$ 1.60749

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

	Class A	Class B	
	Subordinate	Multiple	
	Voting Shares	Voting Shares	Share Capital
	(000's)	(000's)	
Issued and outstanding at December 31, 2008	16,790	3,151	\$ 698,535
Shares acquired under Normal Course Issuer Bid	<u>(171)</u>	<u>(2)</u>	<u>(6,750)</u>
Issued and outstanding at December 31, 2009	16,619	3,149	691,785
Shares issued re DIM 2010	<u>476</u>	<u> </u>	<u>11,489</u>
Issued and outstanding at June 30, 2010	<u>17,095</u>	<u>3,149</u>	<u>\$ 703,274</u>

c) Other paid in capital

	June 30	December 31
	2010	2009
Balance, beginning of period	34,435	11,489
Issue of shares re DIM 2010	<u>(11,489)</u>	
Homburg Capital Securities A:		
Equity component, net of tax	4,855	24,147
Deferred transaction costs	<u>(174)</u>	<u>(1,201)</u>
Balance, end of period	\$ <u>27,627</u>	\$ <u>34,435</u>

During the six months ended June 30, 2010, the Company issued EUR €3,217 (\$4,118) 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.

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11. Earnings (loss) per share

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

	Three Months Ended June 30 2010 (000's)	Three Months Ended June 30 2009 (000's)	Six Months Ended June 30 2010 (000's)	Six Months Ended June 30 2009 (000's)
Basic and Diluted				
Class A Subordinate Voting	17,094	16,695	16,992	16,740
Class B Multiple Voting	<u>3,149</u>	<u>3,149</u>	<u>3,149</u>	<u>3,150</u>
	<u>20,243</u>	<u>19,844</u>	<u>20,141</u>	<u>19,890</u>

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

Net loss	\$ (112,652)	\$ (28,202)	\$ (94,867)	\$ (22,658)
Homburg Capital Securities equity accretion	<u>(779)</u>	<u>(231)</u>	<u>(1,524)</u>	<u>(231)</u>
	<u>\$ (113,431)</u>	<u>\$ (28,433)</u>	<u>\$ (96,391)</u>	<u>\$ (22,889)</u>

12. Supplemental cash flow information

	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Change in non-cash working capital and other:				
Receivables and other	\$ 37,319	\$ 35,107	\$ 8,465	\$ 16,588
Construction properties for resale	<u>(2,032)</u>	<u>(24,649)</u>	<u>(4,283)</u>	<u>(60,218)</u>
Accounts payable and other liabilities	<u>(30,977)</u>	<u>(54,922)</u>	<u>(63,363)</u>	<u>(1,072)</u>
Proceeds exceeding earnings on development properties	<u>4,310</u>	<u>44,421</u>	<u>(59,181)</u>	<u>76,087</u>
	<u>\$ 4,310</u>	<u>\$ (43)</u>	<u>\$ (59,181)</u>	<u>\$ 31,385</u>
Interest paid	<u>\$ 38,720</u>	<u>\$ 47,470</u>	<u>\$ 61,737</u>	<u>\$ 69,579</u>
Interest capitalized	<u>\$ 4,396</u>	<u>\$ 3,908</u>	<u>\$ 8,667</u>	<u>\$ 8,421</u>
Capital and income taxes paid (received)	<u>\$ (264)</u>	<u>\$ 2,336</u>	<u>\$ 2,665</u>	<u>\$ 3,100</u>

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13. Financial instruments and risk management

Financial instruments

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

<u>Classification</u>	<u>Subsequent Measurement</u>	<u>Carrying Value June 30 2010</u>	<u>Fair Value June 30 2010</u>	<u>Carrying Value December 2009</u>	<u>Fair Value December 2009</u>
Available for Sale					
Long term investments -DEGI L.P. (b)	Fair value (L2)	\$ <u> </u>	\$ <u> </u>	\$ <u>13,059</u>	\$ <u>13,059</u>
Held for Trading					
Long term investments - others (b)	Fair value (L1)	\$ <u>565</u>	\$ <u>565</u>	\$ <u>6,278</u>	\$ <u>6,278</u>
Long term investments -HEEF B.V. (b)	Fair value (L3)	<u>7,479</u>	<u>7,479</u>	<u>8,605</u>	<u>8,605</u>
Cash and cash equivalents (c)	Fair value (L1)	<u>18,351</u>	<u>18,351</u>	<u>32,569</u>	<u>32,569</u>
Currency guarantee payable (c)	Fair value (L2)	<u>(26,119)</u>	<u>(26,119)</u>	<u>(5,036)</u>	<u>(5,036)</u>
Derivative instrument liability (c)	Fair value (L2)	<u>(26,730)</u>	<u>(26,730)</u>	<u>(24,045)</u>	<u>(24,045)</u>
		\$ <u>(26,454)</u>	\$ <u>(26,454)</u>	\$ <u>18,371</u>	\$ <u>18,371</u>
Loans and Receivables					
Restricted cash (d)	Amortized cost	\$ <u>16,842</u>	\$ <u>16,842</u>	\$ <u>23,159</u>	\$ <u>23,159</u>
Receivables and other (d)	Amortized cost	<u>48,614</u>	<u>48,614</u>	<u>49,639</u>	<u>49,639</u>
		\$ <u>65,456</u>	\$ <u>65,456</u>	\$ <u>72,798</u>	\$ <u>72,798</u>
Other Financial Liabilities					
Accounts payable and other (d)	Amortized cost	\$ <u>73,288</u>	\$ <u>73,288</u>	\$ <u>208,729</u>	\$ <u>208,729</u>
Mortgages (e)	Amortized cost	<u>1,226,652</u>	<u>1,272,378</u>	<u>1,944,686</u>	<u>2,003,657</u>
Mortgage bonds (e)	Amortized cost	<u>131,164</u>	<u>169,984</u>	<u>190,238</u>	<u>207,943</u>
Corporate non-asset backed bonds (e)	Amortized cost	<u>375,139</u>	<u>400,452</u>	<u>466,302</u>	<u>462,136</u>
Junior subordinated notes (e)	Amortized cost	<u>52,966</u>	<u>79,548</u>	<u>58,591</u>	<u>88,082</u>
Deferred financing charges (e)	Amortized cost	<u>(18,388)</u>		<u>(23,129)</u>	
Construction financing (e)	Amortized cost	<u>99,763</u>	<u>99,766</u>	<u>94,999</u>	<u>94,999</u>
		\$ <u>1,940,584</u>	\$ <u>2,095,416</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 2009.

- (a) The investment in DEGI L.P. represents 10% of the limited partnership units. This investment was sold as part of the HCREIT transaction during the period.
- (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 \$662 resulting from the change in fair values of investments was recorded in the consolidated income statement during the six months ended June 30, 2010 (2009 - loss of \$935).
- (c) Cash and cash equivalents, the currency guarantee receivable and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$6,744 during the six months ended June 30, 2010 in the consolidated income statement (2009 - loss of \$4,811).

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13. Financial instruments and risk management (cont.)

Financial instruments (cont.)

- (d) The Company's short term financial instruments, comprising restricted cash, trade receivables, related party receivables, notes receivable, trade payables, related party payables, notes payable, security deposits, Homburg Capital Securities A liability, and construction financing are carried at amortized cost which, due to their short term nature, approximates their fair value.
- (e) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes and long term payables. The fair values of these financial instruments are based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions.

Risk management

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

a) Liquidity risk

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

The Company has been negatively impacted by global economic and capital market conditions which have resulted in tightened lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company is significantly levered with a debt to equity ratio of 15.25:1 at June 30, 2010 (December 31, 2009 - 14.14:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the six months ended June 30, 2010, Homburg Invest had total interest expense coverage from continuing operations of 0.89:1 (December 31, 2009 - 0.77:1) (calculated as property revenue, less property operating expenses and general and administrative expenses ÷ interest expense (excluding capitalized interest)).

In response to the changes in global capital markets, on December 16, 2009, the Company announced that the Board of Directors authorized a major reorganization of the Company's real estate assets. As the initial step in the reorganization, the Company completed the creation of the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt through an IPO that closed on May 25, 2010. Cash proceeds from the IPO of approximately \$114.5 million was utilized to reduce debt and satisfy other obligations and as a result is on-side with all debt covenants at June 30, 2010 with the exception of the Quelle-related debt. The following table presents the Company's contractual obligations at June 30, 2010:

Contractual Obligation	Within					
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Head and ground leases (i)	\$ 3,282	\$ 15,259	\$ 15,259	\$ 15,912	\$ 15,912	\$ 193,186
Mortgages: Normal principal installments (i)	21,349	30,458	22,385	20,057	19,202	
Interest (i)	62,049	56,662	47,702	41,702	34,142	
Principal maturities	27,574	130,425	108,984	99,811	31,109	583,955
Bonds and junior subordinated notes:						
Interest (i)	46,514	43,128	34,207	27,750	13,670	
Principal maturities	52,966	157,283	64,008	204,790	106,340	
Non construction demand loans (ii)	8,933					
Construction financing (iii)	99,763					
Construction purchase obligations (iii)	1,064					
Other current and long term payables			10,697			
Working capital deficit (iv)	10,209					
	<u>\$ 333,703</u>	<u>\$ 433,215</u>	<u>\$ 303,242</u>	<u>\$ 410,022</u>	<u>\$ 220,375</u>	<u>\$ 777,141</u>
Mortgage principals: covenant breach (vi)	131,344					
	<u>\$ 465,047</u>	<u>\$ 433,215</u>	<u>\$ 303,242</u>	<u>\$ 410,022</u>	<u>\$ 220,375</u>	<u>\$ 777,141</u>

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13. Financial instruments and risk management (cont.)

a) Liquidity risk (cont.)

The Company's derivative instrument liability \$26,730 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 \$21,349; interest on mortgages and mortgage bonds of \$62,049; interest on corporate non asset backed bonds and junior subordinated notes of \$46,514; capital spending requirements on the income property portfolio, expected to approximate \$2 million; and operating lease commitments of \$3,282. Sources of finance towards these obligations include: cash on hand of \$18,351; net cash flow from operating activities before interest expense unrelated to development activities; the unutilized non-construction demand loans of \$15,000 with a company controlled by the Chairman and Chief Executive Officer; cash generated from continued sales of completed condominium development projects; the potential sale of certain income producing properties, subject to reasonable prices being attained; the potential upward refinancing on certain mortgages and distributions received from the Homburg Canada REIT.
- (ii) The Company's non construction demand loans of \$8,933 are secured by first or second charges over various investment properties not to exceed 65% of fair value.
- (iii) The Company has \$313,204 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 \$99,763 at June 30, 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 \$1,064. 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.
- (iv) The working capital deficit of \$10,209 consists of trade receivables \$29,559, related party receivables \$17,007 and notes receivable \$538, less trade payables \$41,037, income taxes payable \$12,620, related party payable of \$3,517 and notes payable \$139, and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.
- (v) The Company's junior subordinated notes, with a principal balance of \$52,966, were in default of the interest coverage ratio and the net worth covenant ratio during the period ended June 30, 2010, however a waiver from the lender was obtained until April 30, 2011. Accordingly, these principal maturities have been classified as falling due within 2011. In absence of the covenant breach, the principal maturity is due in 2036. The Company is currently negotiating the covenants and expects to have revised satisfactory covenants for September 30, 2010.
- (vi) A loan of \$131,344 which relates to a specific property in Germany that was vacated by the tenant, Quelle GmbH, on December 31, 2009 is in default. According to the loan agreement, the lender has recourse only to the assets of the limited partnership and entities under it which secured the specific loan, and not to the Company as a whole. The lender has not taken action to foreclose on its security at June 30, 2010, and therefore the borrowing entities continue to be consolidated by the Company and the mortgage continues to be recorded at amortized cost. At June 30, 2010, the specific property was recorded at its fair value of \$15,960, after an impairment charge of \$157,361 recorded in December 2009. As a result of the default, the lender may foreclose on its security and the Company may lose control of the assets to the lender. Should this occur, a gain would be realized to the extent of the difference between the maximum amount of the debt of \$131,344 and the limited amount of recourse the lender is able to recover.

Should the above efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell properties at unfavourable prices to meet its immediate liquidity needs, and as a result the financial condition and results of operations could be adversely affected.

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13. Financial instruments and risk management (cont.)

b) Interest rate risk

As a result of the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$1,545,155 in fixed rate debt and \$375,581 in floating rate debt (before deferred financing charges and the currency guarantee payable) including \$108,696 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 €\$149,095 (\$190,827) (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 period ended June 30, 2010, the impact on the consolidated income statement is a loss of \$6,744 (June 30, 2009 - loss of \$4,811). The Company discloses the weighted average interest rate of maturing long term debt in Note 7. 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 \$2,685 in the Company's earnings as a result of the impact on floating rate borrowings.

c) Credit risk

The Company's principal assets are commercial and residential properties. Credit risk on tenant receivables of \$29,559 (December 31, 2009 - \$35,341) 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 35.5% 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 (\$95,993) 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 mitigates a portion of its currency risk on mortgage bonds denominated in Euros through a guarantee agreement. In support of the currency guarantee the related party has arranged an arms length credit facility agreement. The Company has also established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. At June 30, 2010, EUR €234,340 (\$299,932) (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 June 30, 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 \$189 and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$7,657 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 \$149 and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1,499 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 35.5% (December 31, 2009 - 34.4%) of property revenue for the period. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The property leased to this tenant had a fair market value of \$575,955 at June 30, 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.

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13. Financial instruments and risk management (cont.)

f) Environmental risk

As an owner and manager of real estate properties, the Company is subject to various Unites 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.

14. Related party transactions

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

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

	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Rental revenue earned	\$ <u>(429)</u>	\$ <u>(321)</u>
Interest income	\$ <u>(336)</u>	\$ <u>(362)</u>
Management agreement termination fee (m)	\$ <u>21,600</u>	\$ <u> </u>
Asset and construction management fees (o)	\$ <u>5,683</u>	\$ <u>14,551</u>
Property management fees incurred (o)	\$ <u>3,483</u>	\$ <u>2,003</u>
Insurance costs incurred	\$ <u>514</u>	\$ <u>687</u>
Service fees incurred	\$ <u>3,500</u>	\$ <u>757</u>
Property acquisition/disposal fees incurred (o)	\$ <u>1,160</u>	\$ <u>5</u>
Mortgage bond guarantee fees incurred (i)	\$ <u>2,072</u>	\$ <u>1,388</u>
Tenant improvements	\$ <u> </u>	\$ <u>125</u>
Bond and other debt issue costs incurred	\$ <u>209</u>	\$ <u>1,940</u>
Interest costs incurred (f) (g) (j)	\$ <u>147</u>	\$ <u>942</u>

b) Included in trade receivables is \$17,007 (accounts payable - December 31, 2009 - \$198) with companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.

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

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

e) Professional services of approximately \$253 (June 30, 2009 - \$100) were purchased from a corporation of which one of the Company's directors is affiliated.

f) Also included in accounts payable is a demand note payable plus accrued interest in the amount of EUR €2,473 (\$3,165) (accounts payable - December 31, 2009 - EUR €2,376 (\$3,573)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 5.619% per annum.

g) Also included in accounts payable is a demand note payable plus accrued interest in the amount of USD \$336 (\$352) (accounts payable - December 31, 2009 - USD \$1,291 (\$1,355)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.

h) Included in accounts receivable is a demand note receivable in the amount of EUR €NIL (December 31, 2009 - EUR €6,795 (\$10,220)) receivable from a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 7.25% per annum.

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14. Related party transactions (cont.)

- i) The Company has entered into a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum is 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds.
- j) Included in non-construction demand loans is a promissory note payable plus interest in the amount of EUR €9,979 (\$8,933)(December 31, 2009 - EUR €7,519 (\$11,310)) bearing interest at 6.0% per annum. This amount relates to the Company's investment in Homburg Eastern European Fund B.V. and is payable to that entity, and has no specific repayment terms.
- k) During the year the Company acquired a company commonly controlled by the Chairman and CEO which holds EUR €16,920 (\$21,656) Homburg Bond 11.
- l) 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 \$112 included in property operating expenses for the period ended June 30, 2010.
- m) 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 \$19 included in property operating expenses for the period ended June 30, 2010.
The Company has pledged and hypothecated in favour of HCREIT, Units having an aggregate value of approximately \$6 million as security 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.
- n) 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 has been included in the loss from discontinued operations.
- o) **Property and Asset Management Service Fees**
The Company has entered into a Property and Asset Management Agreement, which expires on June 30, 2016, with a company commonly controlled by the Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:
- Property Management Service Fees**
- (i) For investment properties where Single Tenant Triple Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) are in place, the Manager will not receive any property management fees;
- (ii) For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases are not in place, fees will be a percentage of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 5% of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries);
- (iii) For investment properties situated in Europe where Single Tenant Triple Net Leases are not in place, fees will be a percentage of annual rents as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 3.5% of annual rents;
- (iv) Construction supervision fees equal to 10% of the gross value (net of taxes) of the cost of construction or related construction contracts. Gross costs include the total hard and soft costs (including interest), but exclude land cost. The Manager will be responsible for, including but not limited to, project management and all third party costs for construction management and other related costs; and
- (v) Leasing fees equal to 10% of the first year net revenue for leases with a term of less than two years, 15% of the first year net revenue for leases of three to four years and 20% of the first year net revenue for leases of five years or longer. The Manager shall pay out of the applicable Owner's funds, mortgage payments, taxes, assessments, premiums on insurance and all other payments related to the operation of the Properties.
- Asset Management Service Fees**
- (vi) For investment properties situated in Canada or the United States, annual fees of 0.30% of the total asset base, calculated on the quarterly basis for properties where Single Tenant Triple Net Leases (as such term is defined above) are in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where a Single Tenant Triple Net Leases (as such term is defined above) are not in place;
- (vii) For investment properties situated in Europe, annual fees of 0.20% of the total asset base, calculated on a quarterly basis;
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14. Related party transactions (cont.)

- (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.

15. Commitments

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Later</u>
Future minimum lease payments:						
Operating leases of the Company (a)	\$ 2,609	\$ 13,914	\$ 13,914	\$ 14,567	\$ 14,567	\$ 188,931
Headlease commitment Note 14(l)(m)	<u>673</u>	<u>1,345</u>	<u>1,345</u>	<u>1,345</u>	<u>1,345</u>	<u>4,255</u>
	<u>\$ 3,282</u>	<u>\$ 15,259</u>	<u>\$ 15,259</u>	<u>\$ 15,912</u>	<u>\$ 15,912</u>	<u>\$ 193,186</u>

- a) The Company has a headlease obligation and is working towards sub-leasing this space prior to the occupancy date, which is expected to be in the fourth quarter of 2010. 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 14a).
- d) The Company has construction projects underway to which it has signed commitments of \$1,064.

16. 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 (\$13,862) (December 31, 2009 - EUR €10,831 (\$16,291)) and would increase the cost of the applicable properties should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 (\$2,303) (December 31, 2009 - EUR €1,800 (\$2,707)); an additional EUR €7,831 (\$10,023) (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 (\$1,535) (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.

17. 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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17. Segmented information (cont.)

	<u>Germany</u>	<u>Netherlands</u>	<u>Baltic States</u>	<u>North America</u>	<u>Total</u>
Six months ended June 30, 2010					
Property revenue	\$ 31,768	\$ 16,833	\$ 9,662	\$ 8,493	\$ 66,756
Operating expenses	<u>1,868</u>	<u>1,010</u>	<u>3,057</u>	<u>3,921</u>	<u>9,856</u>
	<u>\$ 29,900</u>	<u>\$ 15,823</u>	<u>\$ 6,605</u>	<u>\$ 4,572</u>	<u>\$ 56,900</u>
Six months ended June 30, 2009					
Property revenue	\$ 47,276	\$ 22,999	\$ 11,372	\$ 9,794	\$ 91,441
Operating expenses	<u>2,950</u>	<u>2,904</u>	<u>3,283</u>	<u>4,595</u>	<u>13,732</u>
	<u>\$ 44,326</u>	<u>\$ 20,095</u>	<u>\$ 8,089</u>	<u>\$ 5,199</u>	<u>\$ 77,709</u>
June 30, 2010					
Investment properties	<u>\$ 742,187</u>	<u>\$ 440,774</u>	<u>\$ 199,801</u>	<u>\$ 144,575</u>	<u>\$ 1,527,337</u>
Mortgages payable	<u>\$ 610,556</u>	<u>\$ 344,522</u>	<u>\$ 155,276</u>	<u>\$ 116,298</u>	<u>\$ 1,226,652</u>
Mortgage bonds payable	<u>\$ 29,767</u>	<u>\$ 35,816</u>	<u>\$</u>	<u>\$ 65,581</u>	<u>\$ 131,164</u>
December 31, 2009					
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>\$ 410,896</u>	<u>\$ 198,516</u>	<u>\$ 675,665</u>	<u>\$ 1,944,686</u>
Mortgage bonds payable	<u>\$ 34,981</u>	<u>\$ 42,089</u>	<u>\$</u>	<u>\$ 113,168</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 \$10,633 (June 30, 2009 - \$39,790), less costs of development of \$13,111 (June 30, 2009 - \$48,449), which resulted in gross loss on sale of properties of \$2,478 (June 30, 2009 - \$(8,659)). At June 30, 2010, the Germany segment included one (December 31, 2009 - one) tenant that individually represented 35.5% (December 31, 2009 - 34.4%) of the Company's consolidated property revenue for the period. Property operating expenses include \$415 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>
Six months ended June 30, 2010					
Property revenue	\$ 9,618	\$ 8,796	\$ 48,342	\$	\$ 66,756
Operating expenses	<u>2,783</u>	<u>2,515</u>	<u>4,558</u>	<u></u>	<u>9,856</u>
	<u>\$ 6,835</u>	<u>\$ 6,281</u>	<u>\$ 43,784</u>	<u>\$</u>	<u>\$ 56,900</u>
Six months ended June 30, 2009					
Property revenue	\$ 11,418	\$ 19,082	\$ 60,941	\$	\$ 91,441
Operating expenses	<u>3,043</u>	<u>1,387</u>	<u>9,302</u>	<u></u>	<u>13,732</u>
	<u>\$ 8,375</u>	<u>\$ 17,695</u>	<u>\$ 51,639</u>	<u>\$</u>	<u>\$ 77,709</u>
June 30, 2010					
Investment properties	<u>\$ 189,718</u>	<u>\$ 208,137</u>	<u>\$ 1,129,482</u>	<u>\$</u>	<u>\$ 1,527,337</u>
Mortgages payable	<u>\$ 131,953</u>	<u>\$ 287,691</u>	<u>\$ 789,491</u>	<u>\$ 17,517</u>	<u>\$ 1,226,652</u>
Mortgage bonds payable	<u>\$ 4,156</u>	<u>\$ 29,047</u>	<u>\$ 32,379</u>	<u>\$</u>	<u>\$ 65,582</u>
December 31, 2009					
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 June 30, 2010, mortgage bonds payable totaled \$131,164, exclusive of the currency guarantee payable of \$26,119. Of this amount \$65,582 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$65,582 is allocated to specific property classification segments above. At December 31, 2009, mortgage bonds payable totaled \$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.

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18. Subsequent events

Management has performed an evaluation of the Company's activities through the date these financial statements were issued and concluded that there are no additional significant events requiring recognition or disclosure.
