



**HOMBURG INVEST INC.**

**Annual Information Form**

**December 31, 2006**

**April 2, 2007**

## **FORWARD LOOKING STATEMENTS**

Certain statements contained in this Annual Information Form, and in certain documents incorporated by reference herein, constitute “forward-looking statements”. When used herein and therein, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, “expect”, and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including among others, those which are discussed under the heading “Risk Factors”. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Except as required by applicable securities laws, the Company does not intend, and does not assume any obligation, to update these forward-looking statements.

## **FINANCIAL INFORMATION**

Unless otherwise indicated, the financial information included in this annual information form is derived from the Company’s financial information prepared under Canadian Generally Accepted Accounting Principles.

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## **THE COMPANY**

### **Overview**

Homburg Invest Inc. (“HII” or the Company) is an international real estate investment and development company based in Halifax, Nova Scotia. HII owns a diversified portfolio of quality real estate, including office, retail, industrial and residential apartment and townhouse properties in Canada, Europe and the United States. The Company also owns land assets for development in Calgary and Edmonton, Alberta, Montréal, Québec and Charlottetown, Prince Edward Island.

Over the past several years, HII has become increasingly active in the direct development of properties. These development activities have been primarily conducted in Calgary, Alberta and have included both commercial and multi-unit residential projects. In late 2006, HII also entered into partnerships for two development projects in Montréal, Québec.

HII was continued under the *Business Corporations Act* (Alberta) (the “ABCA”) as Basic Realty Investment Corporation (“Basic Realty”) on October 21, 1999, further to the amalgamation of Northern Glacier Resources Inc. and 844717 Alberta Ltd.

HII is the successor company of Uni-Invest Ltd., which became a publicly listed company in 2000 as a result of a reverse take-over of Basic Realty. Basic Realty was a public company that became listed on the Canadian Venture Exchange (now the TSX Venture Exchange) on December 10, 1999. On September 19, 2000, Basic Realty agreed to acquire 100% of the issued and outstanding shares of Uni-Invest Canada Ltd., a private real estate investment company, in a share exchange transaction. This share exchange transaction closed on October 23, 2000, at which time Basic Realty changed its name to Uni-Invest Ltd. On January 10, 2001, Uni-Invest Ltd. changed its name to Homburg Invest Inc. and the shares of the Company were delisted from the Canadian Venture Exchange and listed on the Toronto Stock Exchange (the “TSX”).

The Class A Subordinate Voting Shares (the “Class A Shares”) and the Class B Multiple Voting Shares (the “Class B Shares”) of HII are listed and posted for trading on the TSX under the symbols HII.A and HII.B, respectively. The Class A Shares are also listed and posted for trading on Eurolist by Euronext Amsterdam under the symbol HII.

The head office of HII is located at Suite 600, 1741 Brunswick Street, Halifax, Nova Scotia, B3J 3X8.

The registered office is located at MacLeod Dixon LLP, 3700 Canterra Tower, 400 Third Avenue SW, Calgary, Alberta, T2P 4H2.

### **Organizational Structure**

A majority of the Company’s real estate assets are currently held through limited partnerships (the “Partnerships”). Each of the Partnerships was formed under the laws of Nova Scotia and is named Homco Realty Fund (#) Limited Partnership and has been established to acquire one or more specific real estate assets. Each Partnership has a general partner who is responsible for managing the Partnership and one or more limited partners (“Limited Partners”) who provide

equity in return for limited partnership units. The general partner for substantially all of the Partnerships is Homburg LP Management Incorporated (the “General Partner”), Suite 200, 11 Akerley Boulevard, Halifax Regional Municipality, Nova Scotia, B3B 1V7. The General Partner is controlled directly and indirectly by Richard Homburg.

The Partnership structure is used for several reasons. Primarily, it permits HII to obtain financing without providing collateral security by way of hard assets or general corporate guarantees as each asset is treated as a standalone entity. In addition, the purchase or sale of limited partnership units (i) does not attract land transfer taxes, (ii) provides a measure of financial reporting discipline as each Partnership is accounted for as a stand-alone entity, and (iii) the structure allows all of the entities to be consolidated for Canadian tax purposes.

The Limited Partners are entitled to the profits and, in the event of a liquidation of the Partnerships, to the liquidation proceeds. The Limited Partners of each Partnership could therefore be qualified as the beneficial owners of the property owned by such Partnership. HII is the sole Limited Partner of all the Partnerships, except for certain Partnership (the “Minority Partnerships”), in which the Company holds a minority interest. The profits of the Minority Partnerships (except Partnerships (49) and (140)) are allocated between the General Partner and the Limited Partners. For all Minority Partnerships other than Partnerships (49) and (140), the General Partner is entitled to 30% of the profits (before taxes) that remain after the Limited Partners have received a minimum cumulative annual return of 11% (before taxes). For Minority Partnership (49), the General Partner is entitled to 30% of the profits (before taxes) that remain after the Limited Partners have received a minimum cumulative annual return of 8% (before taxes). As at December 31, 2006, HII was the sole Limited Partner in 75 Partnerships and had interests ranging from 5% to 55.55% in the 8 Minority Partnerships.

The General Partner, except in the case of the Minority Partnerships, is not entitled to the profits of the Partnerships. The General Partner has full power and authority to transact the business of the Partnerships and to deal with the assets for the use and benefit of the Partnerships. For these purposes, the General Partner has sole, complete and unfettered power and authority to manage and carry on the business of the Partnerships and to do all things required in connection with the Partnership including, but not limited to, acquiring and disposing of real property, mortgaging and charging real property, contracting for service, banking, appointing auditors, making capital distributions and selling or acquiring limited partnership units. The Limited Partner cannot direct the General Partner, and can only remove it as general partner of a given Partnership upon its bankruptcy or default under the applicable limited partnership agreement.

Most of the asset and management activities of Homburg and its subsidiaries are performed by Homburg Canada through property management agreements (“Property Management Agreements”) and asset management agreements (“Asset Management Agreements”). These management activities include general property management services, strategic planning, marketing, financial reporting advisory and acquisition and disposition services.

In each case, the General Partner has entered into Property Management Agreements and Asset Management Agreements (the “Asset Management Agreements”) on behalf of each Partnership with Homburg Canada Incorporated (“Homburg Canada”). Under these agreements, Homburg Canada provides property management and asset management services to the Partnerships.

Homburg Canada receives management fees for providing these services. See “Interest of Management and Others in Material Transactions”.

In addition to the asset management and property management services that Homburg Canada provides to the Partnerships, Homburg Canada also provides management services to the Company for the properties that HII owns directly and to Homburg Holdings (U.S.) Inc. in respect of the U.S. properties. Homburg Canada also provides management and property management services to the Minority Partnerships.

HII owns 100% of the economic interest, or its pro rata portion thereof, in the business carried on by each Partnership, as all of the profits and losses in the Partnership are allocated to the limited partnership units held by HII. The General Partner determines when any capital contributions may be returned to HII.

### **Subsidiaries**

In addition to the Partnerships, as described above, the Company had the following direct subsidiaries (together with the Partnerships, the “Subsidiaries”) as of December 31, 2006:

*Development companies* – HII owns, directly or indirectly, 100% of 11 real estate development companies;

*Homburg (U.S.) Incorporated* - The Company owns 100% of the issued and outstanding shares of Homburg (U.S.) Incorporated, a Nova Scotia company. Homburg (U.S.) Incorporated is the parent company of Homburg Holdings (U.S.) Inc., a U.S. company, which owns 12 properties in Texas and Colorado;

*Homburg ShareCo Inc.* - HII owns 100% of the issued and outstanding shares of Homburg ShareCo Inc. (“ShareCo”), a Nova Scotia company. ShareCo raises capital for HII through the issue of HII mortgage bonds in the European market. All bonds are secured by a first or second charge over specific assets of one or more Partnerships, a guarantee by the Company for the benefit of the holders of the mortgage bonds and, in most cases, a guarantee by one or more Partnerships and, in some cases, an assignment of the limited partnership units;

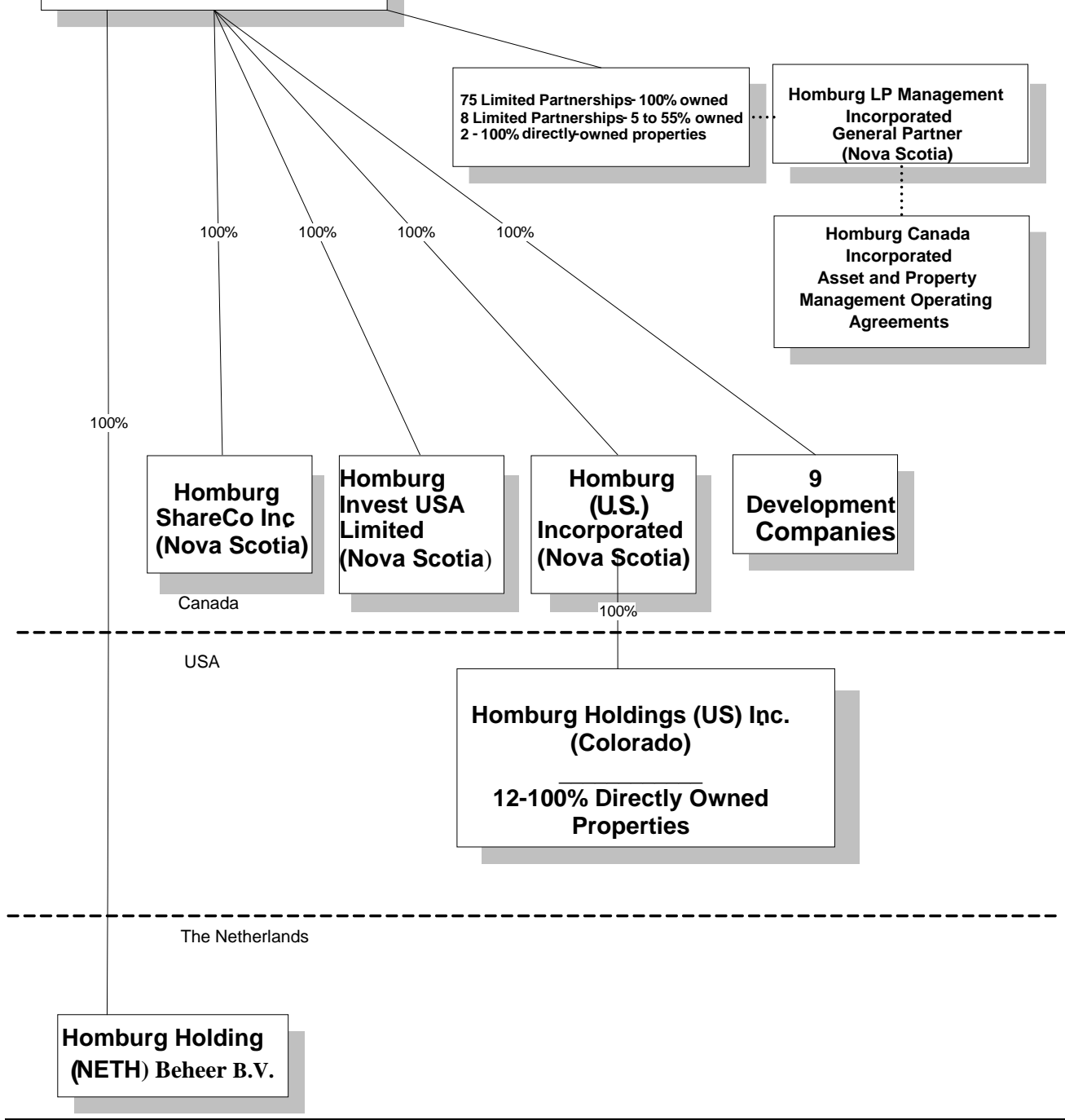
*Homburg Invest USA Limited* – The Company owns 100% of the issued and outstanding shares of Homburg Invest USA Limited, a Nova Scotia company, which holds part of the Company’s investment in Cedar Shopping Centers, Inc., as real estate investment trust listed on the New York Stock Exchange. See “The Company - Activities – Strategic Investments and Divestitures” and “Recent Developments – Other Recent Developments – Joint Venture with Cedar Shopping Centers, Inc.”; and

*Homburg Holding (NETH) Beheer B.V.* - HII owns 100% of the issued and outstanding shares of Homburg Holding (NETH) Beheer B.V., which controls, through Partex East B.V. and Partex West B.V., approximately 23% of the voting rights of DIM Vastgoed N.V., a public Dutch real estate investment company with retail shopping center assets in the South Eastern United States. See “The Company - Activities – Strategic Investments and Divestitures”.

The following chart illustrates on a simplified basis the structure of the Company (including the jurisdictions of establishment/incorporation of various entities).

**Homburg Invest Inc.**

December 31, 2006



## **Growth History**

In October 2000, the Company had approximately \$89 million in real estate assets. In 2003, HII made significant acquisitions, including the acquisition from Homburg Uni-Corp Inc., a company controlled by Richard Homburg, of 16 properties in the United States. In that year, the Company also acquired seven standalone Zellers' locations across Canada which added approximately 700,000 square feet to its portfolio. By December 31, 2003, the Company's real estate assets had grown to approximately \$248 million.

In 2004, the Company continued to acquire Canadian real estate, including 10 Pizza Hut locations in the Province of Québec, the initial acquisition of land for development in Calgary, Alberta and the construction of the Vintage Towers II office complex in Calgary, Alberta. With real estate assets totalling \$282 million at the end of December 2004, the Board of Directors approved a strategic growth plan which included development of significant properties in Alberta, with the view to ultimately achieve a diversification of property assets such that the locations of such assets would be well balanced across Canada, Europe and the United States.

In early 2005, further acquisitions were completed, including the acquisition of additional development properties in Calgary, Edmonton, and Grande Prairie, Alberta, which included the Citadel West and Castello Tower property, the Inverness Estates condominium development, the Churchill Estates condominium tower and the Homburg Harris Centre. The Homburg Harris Centre is being developed into a 633,000 square foot commercial office tower, in downtown Calgary.

In June, 2005, growth continued with the acquisition of 11 commercial properties including office buildings, shopping centres, logistics centres, production, warehousing and distribution facilities located in prominent locations in the Netherlands. These included the Quelle complex in Nurnburg, Germany and the Viterra Office complex in Bochum, Germany, which marked the Company's first acquisition in Europe. The total consideration paid for these properties amounted to approximately \$496 million, and was paid through the assumption of mortgages and liabilities of approximately \$391 million, cash of approximately \$35 million and the issuance to the vendor of shares in an amount of \$70 million.

In December 2005, two other office/warehouse complexes located in Amersfoort and 't Harde in the Netherlands were acquired for total consideration of approximately \$25 million, which was paid through the assumption of mortgage and liabilities of approximately \$17 million, cash of approximately \$5 million and the issuance to the vendor of Class A Shares in an amount of approximately \$3 million. As at December 31, 2005, the Company's real estate assets totalled approximately \$817 million.

Growth continued in 2006, with the acquisition in the month of February of nine Pizza Hut locations in Québec and Ontario on a sale and lease back basis for total consideration of \$9 million in cash. In March 2006, the Company acquired a 17 tenants retail shopping centre in Wittenburg, Germany for total consideration of approximately \$42 million, which was paid through the assumption of debt for approximately \$33 million and cash of approximately \$9 million.

On March 20, 2006, HII announced the commencement of construction of a 45 unit condominium project in Charlottetown, Prince Edward Island. The units will range from 1,200 to 2,500 square feet.

In May 2006, the Company announced that Homburg BPF Canada, a joint venture with SNS Property Finance (formerly Bouwfonds Property Finance, Hoevelaken, the Netherlands), and another partner, an affiliate of Télémédia Ventures Inc. (Montréal, Québec), planned to develop a five acre site on the eastern edge of Old Montréal, Québec. The plans of the joint venture include a multi-use upscale urban development, with the refurbishment of former Château Viger built in 1897, and is expected to result in a total investment by all parties of over \$350 million. HII has a one-third interest in the joint venture. The project is currently in the pre-development stage and is a joint development project involving local partners and international financiers.

In May 2006, the Company also acquired the headquarters and research centre of Infineon Technologies AG, a New York and Frankfurt stock exchange listed company that offers semiconductor and system solutions, located in Munich, Germany. This facility consists of 12 buildings, totalling approximately 1.6 million square feet acquired for a total consideration of approximately \$635 million, paid through the assumption of mortgages and liabilities of approximately \$480 million and cash of approximately \$155 million. A Form 51-102F4 - Business Acquisition Report dated October 9, 2006 was filed in respect of the acquisition and is available on SEDAR at [www.sedar.com](http://www.sedar.com).

In June 2006, the Company completed the acquisition of four large properties in Groningen (KPN Telecom Head Office), Eindhoven (Philips Lighting Headquarters and Research facilities) and Rotterdam (two David Lloyd buildings) in the Netherlands for a total consideration of approximately \$200 million. These properties total approximately 970,000 square feet and are occupied by world class public companies under long-term leases. The total consideration for these assets was paid through the assumption of debt of approximately \$150 million, cash of approximately \$17 million and the issuance to the vendor of Class A Shares in an amount of approximately \$33 million.

On October 31, 2006, HII completed the acquisition of two properties in Alberta (Grande Prairie and Taber) for \$2.5 million, both of which are occupied by Western Financial Group.

On December 14, 2006, HII announced that Homco Realty Fund (140) LP purchased a 66.67% interest in a condominium project located at 333 Sherbrooke Street, East, Montréal, Québec. The project consists of 225 residential units in two phases.

Further in December 2006, the Company acquired four office complexes located in Eindhoven, Sittard, Rotterdam and Tilburg in the Netherlands for approximately \$61 million paid through the assumption of debt of approximately \$51 million, cash of approximately \$4 million and the issuance to the vendor of Class A Shares in an amount of approximately \$6 million.

The acquisitions completed by HII in 2006 brought its total real estate assets to over \$1.9 billion.

## **Activities**

The Company's principal business activities include the following:

### ***Management of Real Estate***

Most of the asset and property management activities of HII and its Subsidiaries are performed by Homburg Canada pursuant to Property Management Agreements and Asset Management Agreements. These management activities include general property management services, strategic planning, marketing, financial reporting advisory, and acquisition and disposition services. See "Interest of Management and Others in Material Transactions". for more information on Homburg Canada and the services it provides.

### ***Development of Real Estate***

#### *Overview*

The Company currently has 17 development projects located in Alberta, Québec and Charlottetown, Prince Edward Island. See "Properties of HII". Of these development projects, 12 of them are under construction or in the final stages of development planning. Certain of these projects should generate long-term cash flows as investment properties while others, such as the Company's condominium projects in Alberta and Quebec, are expected to generate one-time cash flow on completion.

#### *Alberta*

The Company's current strategy in Alberta is to focus on real estate development and redevelopment. Reductions in capitalization rates in Alberta and the opportunity to acquire development properties and land assemblies allow HII to take advantage of the vibrant economy in Alberta while leveraging its development expertise.

Longer term projects, like Homburg Springs, Homburg Springs West, Points North and Henderson Farms, occupy over 500 acres of land on the outskirts of Calgary, positioning the Company to take advantage of the expanding Alberta marketplace. These projects, which are at pre-development planning stage, are expected to consist of over 5,000 single family residential housing units, as well as mixed use opportunities for office and retail expansion.

#### *Québec*

The Company believes that attractive opportunities currently exist in development and redevelopment projects in Montréal, Québec which could provide attractive opportunities. The Company believes that Montréal has not yet reached its full potential as an international city and that growth opportunities will continue to become available there in the next few years. The Company entered into two joint ventures in Montréal in 2006: the \$350 million Château Viger site redevelopment and the \$35 million condominium project at 333 Sherbrooke Street East (112 units). With its partners, the Company is currently in the pre-development stage to transition the famous Château Viger site and former Canadian Pacific Railway hotel and depot (circa 1913)

into a large scale urban resort project with the centerpiece to be the Château's rebirth as a market leading hotel.

### ***Strategic Investments and Divestitures***

During the fourth quarter of 2005 and the first quarter of 2006, HII acquired a 23.4% voting interest in DIM Vastgoed N.V., a Dutch real estate investment company. The acquisition of the interest in DIM Vastgoed N.V. increases the Company's exposure to opportunities in the southeastern United States.

The Company also holds, through its Subsidiaries, 50,000 common shares of Cedar Shopping Centers, Inc., a real estate investment trust listed on the New York Stock Exchange under the symbol "CDR". The Company's investment in Cedar Shopping Centers, Inc. represents approximately 0.2% of its outstanding common shares. The Company, through its wholly-owned subsidiary, recently entered into a joint venture with Cedar Shopping Centers, Inc. in respect of the ownership of nine shopping centers in the states of Pennsylvania and Massachusetts. See "Recent Developments – Other Recent Developments – Joint Venture with Cedar Shopping Centers, Inc."

While HII and its Subsidiaries invest in real estate as a long-term investment, attractive opportunities to divest occasionally present themselves. Recent examples of this are:

- the completion of the sale in 2005 of the Homburg Vintage Towers in Calgary, Alberta. While the investment was made on the basis of a long-term revenue stream, the Company discovered an opportunity to realize a substantial profit on that project. The Board of Directors determined that the realization of the profit was appropriate and the building was subsequently sold for a pre-tax gain of approximately \$14.1 million; and
- the sale on February 20, 2006 of 247 acres of "development" land in Calgary resulting in a gain on the sale of approximately \$0.08 per share. It had been determined that the land no longer fit in the Company's plans.

### **Competition**

The real estate industry is highly competitive and fragmented and is affected by numerous factors including fluctuations in interest and occupancy rates and changes in general and, especially, local economic conditions. As such, a thorough understanding of local markets and an awareness of indicators of economic shifts therein is essential to permit the realization of existing opportunities. To this end, the management of HII has extensive knowledge of, and experience in, the markets where it carries on acquisition activities.

## PROPERTY PORTFOLIO OVERVIEW

The Company's strategy is to develop a diversified real estate portfolio, generating stable and growing cash flows, in Canada, Europe and the United States.

As at December 31, 2006, the Company derived 67.8% of its property revenue from Europe, 28.6% from Canada, and 3.6% from the United States. The Company's objective is to ultimately develop a geographically diversified portfolio of real estate assets, well balanced over these three geographic regions. In addition, the Company's portfolio currently consists of four asset classes: office, industrial, retail and residential. As at December 31, 2006, the Company derived 53.8% of its property revenue from the office class, 26.3% from the industrial class, 17.8% from the retail class and 2.1% from the residential class. The Company's strategy with respect to asset class distribution is to spread revenues across office, industrial and retail properties, while pursuing residential development projects.

The following tables summarize specific aspects of the Company's investment properties as at December 31, 2006 and for the year then ended:

Total Gross Leaseable Area ("GLA") (in thousands of square feet) 11,794

### **Class**

(Percentage of Total GLA)

Industrial	43.5%
Office	37.7%
Retail	15.7%
Residential	<u>3.1%</u>
	<u>100.0%</u>

### **Location**

(Percentage of Total GLA)

Germany	44.4%
Netherlands	26.2%
Canada	26.9%
United States	<u>2.5%</u>
	<u>100.0%</u>

(Percentage of 2006 Property Revenue and Net Operating Income ("NOI"))

<b>Class</b>	<b>Property Revenue</b>	<b>NOI</b>
Industrial	26.3%	28.8%
Office	53.8%	55.2%
Retail	17.8%	14.8%
Residential	<u>2.1%</u>	<u>1.2%</u>
	<u>100.0%</u>	<u>100.0%</u>
<b>Location</b>		
(Percentage of Total GLA)		
Germany	49.8%	55.8%
Netherlands	18.0%	19.6%
Canada	28.6%	22.4%
United States	<u>3.6%</u>	<u>2.2%</u>
	<u>100.0%</u>	<u>100.0%</u>

## **RECENT DEVELOPMENTS**

Since the end of its financial year ended December 31, 2006, the Company continued with its growth plan and the raising of capital in support of that growth plan.

### **The Alexis Nihon Acquisition**

On February 19, 2007, Homburg Acquisition Inc., a wholly-owned Subsidiary of the Company, entered into a support agreement with the trustees of Alexis Nihon Real Estate Investment Trust (“Alexis Nihon”), pursuant to which Alexis Nihon agreed to support HII’s offer (the “Offer”) to purchase all of the units of Alexis Nihon at a price of \$18.60 in cash per unit (the “Support Agreement”).

The Company also entered into an agreement with Cominar Real Estate Investment Trust (“Cominar”) on February 19, 2007 (the “Cominar Asset Sale Agreement”) pursuant to which the Company agreed to cause Alexis Nihon to sell the office and industrial properties of Alexis Nihon to Cominar for \$592 million, including the assumption of debt relating to those properties, within 60 days (at Cominar’s request) of the acquisition by the Company of 100% of the outstanding units of Alexis Nihon (the “Cominar Sale”), provided that such acquisition is completed by August 31, 2007. Pursuant to the Cominar Asset Sale Agreement, Cominar has provided the Company with a deposit of \$17.1 million (the “Cominar Deposit”). Under the terms of the Cominar Asset Sale Agreement, the Company will retain the Alexis Nihon Plaza and the retail properties of Alexis Nihon (including the office component).

The Cominar Sale is subject to certain conditions. If the Cominar Sale is not completed solely as a result of the default of Cominar to comply with its obligations under the Cominar Asset Sale Agreement, the Cominar Deposit shall be paid to the Company as liquidated damages.

The Offer for Alexis Nihon dated February 27, 2007 is open for acceptance until midnight (Montréal time) on April 5, 2007, unless extended or withdrawn.

If completed, the proposed acquisition of Alexis Nihon will constitute a significant acquisition for HII within the meaning of Part 8 – Business Acquisition Report of National Instrument 51-102 – *Continuous Disclosure Obligations*.

### **Other Recent Developments**

Some additional recent developments include the following:

#### *Private Placement of Class A Shares (January 2007)*

In January 2007, the Company completed a private placement of 6,368,164 Class A Shares for total proceeds of approximately \$32.6 million with a company controlled by Richard Homburg.

#### *Acquisition of Land in Calgary, Alberta (January, 2007)*

In January 2007, the Company entered into an agreement to acquire a 39 acre parcel of land for future development in Calgary, Alberta for approximately \$15.3 million. The purchase price was satisfied through the issuance to the vendor of 350,000 Class A Shares for total proceeds of

approximately \$2.3 million, with the remainder in cash and debt financing. The acquisition closed in February 2007.

*Sale of Development Assets (January 2007)*

As a result of very favourable market conditions in the Alberta marketplace, the Company announced its intention to sell various assets currently under construction. The proceeds will be used to further the acquisition of quality real estate in Germany, the Netherlands, the United States and Canada.

The Company entered into an agreement to sell a construction property in Canada which is being developed for resale. The transaction is expected to close in the second quarter of 2007 with total proceeds of approximately \$34.0 million, which is in excess of the carrying value of the property.

The Company entered into an agreement to sell an office building in the United States. The transaction closed in the first quarter of 2007 with total proceeds of approximately USD \$845,000 (\$985,000), which is in excess of the carrying value of the property.

*Acquisition of Five Properties in the Netherlands (February 2007)*

In February 2007, the Company completed the acquisition of five commercial properties in the Netherlands for a total purchase price of approximately €24 million (approximately \$37 million). The transaction was financed by a long term financing of €19 million, cash, and the issue to the vendor of one million Class A Shares for total proceeds of approximately \$6.5 million. The properties are located in Venlo, Eindhoven, Gouda and Roermond (two properties) in the Netherlands. These properties provide a total of approximately 173,000 square feet of quality office space and are leased to substantial tenants.

*Purchase of 62 Residential Rental Units in Fort McMurray, Alberta (February 2007)*

In February 2007, the Company entered into an agreement to purchase 62 residential rental units in Fort McMurray, Alberta. Total consideration for the acquisition is \$26 million and will be financed with mortgage financing of approximately \$14.2 million and the issue of Class A Shares to the vendor for a total amount of \$11.8 million.

*Issuance of bonds series 10 (March 2007)*

In February 2007, the Company received regulatory approval for the issue of bonds series 10, which will be issued for a maximum value of €100 million (approximately \$154 million) on an unsecured basis and bearing an annual interest rate of 7.25% to be paid on a semi-annual basis. The issue of bonds series 10 has been approved by the Company and bonds are currently being settled in the Netherlands. The proceeds from the issue will be used for general corporate purposes and for future acquisitions.

*Joint Venture with Cedar Shopping Centers, Inc. (April 2007)*

On April 2, 2007, the Company announced that its wholly-owned subsidiary entered into an agreement with Cedar Shopping Centers, Inc., as a joint venture partner to own nine shopping

centers. The properties, valued at approximately U.S.\$170 million, involve eight shopping centers in Pennsylvania, including the ground-up shopping center development recently completed by Cedar Shopping Centers, Inc. in Hershey, Pennsylvania, and one property in Massachusetts. The Company's wholly-owned U.S. subsidiary will acquire an 80% interest in the joint venture and Cedar Shopping Centers, Inc. will acquire the remaining 20% interest and will remain as the manager of the properties.

### **2007 OUTLOOK**

The information contained within this section includes forward-looking statements and readers are cautioned that such statements are subject to risks and uncertainties that could cause the actual results to vary significantly from the results contemplated or implied by this forward-looking information.

The Company's 2005 outlook for 2006 was to focus on new property acquisitions through purchases of new assets. The Company's objective was to grow the Company's asset base by at least an additional \$300 million to surpass the \$1.0 billion mark. The financial statements show that the Company's investment properties grew to \$1.7 billion by year end, an increase of \$1.0 billion net of dispositions and depreciation. In May and June of 2006, the Company acquired 16 real estate properties in Germany and the Netherlands for approximately \$780 million that has had a major impact on the Company's operations.

The Company's philosophy is that it will not acquire assets unless they enhance shareholder value. As the price of acquisitions has increased over the last few years due to the lowering of capitalization rates used to determine prices, the Company has moved in the direction of acquiring land for development and existing properties for redevelopment. This, the Company believes, will significantly grow the asset base of the Company in 2007 and beyond and will provide superior returns to the shareholders that are currently not available through direct acquisitions.

In 2007 to 2009, the Company intends to commence development on the infrastructure of the Homburg Springs property acquired in 2004 and the Homburg Springs West property acquired in 2005, which will lead to the construction of up to 4,200 homes and 350,000 square feet of commercial space over a seven to 10 year period. The total developed value of this project is anticipated to be \$1.5 billion. These and other properties, developed and to be developed, will directly enhance the earnings of the company and the returns to be paid to the Shareholders. It is always the Company's position that increased profits and values for properties should be paid out to its owners as it is their invested capital that allows the Company to grow.

At the February 8, 2007 Directors' meeting, it was decided to proceed with the payment of the semi-annual dividend at March 31, 2007 of \$0.18 per share. The Company is now paying an annual dividend of \$0.36. The declaration of this dividend illustrates the faith that management and the Board of Directors have in its strategic plan which will allow the earnings to be realized through operations, sales of specific assets and redevelopment opportunities and paid out as dividends in 2007 and the years beyond.

The Company announced on January 16, 2007 that it was seeking regulatory approval to issue bond series 10 in the amount of €100.0 million, and that its intention was to sell \$500.0 million of assets currently under construction for an estimated net pre-tax gain of \$150.0 million. These

funds will be utilized to enable the Company to continue with its aggressive development and acquisition plans.

In addition to its activities in Canada, the Company continues to look at investment prospects in Europe and the United States to take advantage of opportunities that make themselves available in those much larger real estate markets. With Mr. Homburg's extensive experience in Europe with Uni-Invest N.V. and in the United States as a director of Cedar Shopping Centers, Inc., the Board of Directors has modified its strategic planning approach to look at having its real estate in three market areas One-third will be in Canada, one-third in the United States and one-third in Europe. Mr. Homburg's broad knowledge in each of these marketplaces and his contacts within the investment communities will serve the Company well as we move to grow the asset base and profitability of the Company.

The Company invests in real property for the long term, however, real estate is a commodity and the Company is evaluating each of its properties to determine if the optimum value of certain assets may be realized through a disposition. The Company will monitor this and determine the most appropriate action to take over the coming year. It would not be the Company's intention to liquidate more than 5% of its real estate in any one period unless exceptional circumstances arose, except for properties developed for immediate resale purposes.

### **DEBT OVERVIEW**

The Company employs a combination of debt financing sources, including secured and unsecured debt as well as fixed and variable rate structures over various terms. These debt financing sources are available in various international markets and when considering its alternatives, the Company takes into account not only the availability of financing and respective market conditions, but also their overall capital structure and the financial characteristics of each property, where property-specific debt is employed.

The table below sets forth the Company's total debt outstanding as at December 31 for the years ending 2006, 2005 and 2004.

<b>In thousands except for ratios</b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<i>Secured Debt:</i>			
Mortgages payable	\$1,154,254	\$458,749	\$117,941
Mortgage bonds payable	223,685	220,202	135,801
Construction financing	91,201	32,115	-
Total secured debt	\$1,469,140	\$711,066	\$253,741
<i>Unsecured Debt:</i>			
Corporate non-asset backed bonds	\$160,015	-	-
Junior subordinated notes	61,826	-	-
Total unsecured debt	\$221,841	-	-
Total debt	\$1,690,981	\$711,066	\$253,741
Common Shares issued and outstanding	-	-	56,453
December 31 Common Share price	-	-	\$2.10
Class A Shares issued and outstanding (basic)	87,090	57,818	-
December 29 (2006), 20 (2005) Class A Share price	\$5.75	\$3.60	-
Class B Shares issued and outstanding (basic)	30,897	30,845	-

December 29 (2006), 30 (2005) Class B Share price	\$4.35	\$3.50	-
Market value of equity	\$635,169	\$316,102	\$118,551
Plus: Total debt (from above)	1,690,981	711,066	253,741
Equals: Total capitalization (market value of equity)	\$2,326,150	\$1,027,168	\$372,292
Total debt (from above)	\$1,690,981	\$711,066	\$253,741
Less: Cash and cash equivalents	66,743	34,185	31,258
Equals: Adjusted debt	\$1,624,238	\$676,881	\$222,483
<b>Adjusted debt to total capitalization (market value of equity)</b>	<b>69.8%</b>	<b>65.9%</b>	<b>59.8%</b>

Given the potential exposure to rising interest rates in the Company's variable rate debt financing, the Company may from time to time enter into interest rate swaps or other hedging instruments to fix the amount of interest paid by the Company on its variable rate debt in order to reduce its exposure to variable interest rate fluctuations at any particular point in time.

### Secured Debt

*Mortgages Payable* – Mortgages payable are secured by a pledge of specific investment properties and an assignment of specific rents receivable, with maturity dates between 2007 and 2020.

*Mortgage Bonds Payable* - The mortgage bonds payable consist of seven-year bonds, issued in series and secured by a first or second charge over specific assets and a guarantee from HII. The bonds mature between December 2009 and June 2012 and the Company has the option to redeem any series of mortgage bonds at their principal amount at any time subsequent to the fifth anniversary of the issue of the bonds. The interest is payable semi-annually on June 30 and December 31.

#### In thousands

<u>Bond Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>2006</u>
HMB1	December 15, 2009	10.00%	C \$4,420	\$4,420
HMB1	December 15, 2009	8.50%	EUR €9,905	15,255
HMB2	April 25, 2010	7.50%	EUR €30,000	46,198
HMB4	November 30, 2011	7.50%	EUR €20,010	30,814
HMB5	December 31, 2011	7.50%	EUR €20,010	30,814
HMB6	June 30, 2012	7.50%	EUR €31,230	48,092
HMB7	June 30, 2012	7.25%	EUR €31,230	48,092
<b>Total</b>				<b>\$223,685</b>

*Construction Financing* – The Company has arranged construction financing, which is demand in nature, for its development properties. Borrowing rates on these financing are at fixed or variable market rates, the weighted average interest rate for all construction financing is 7.08%. The Company has pledged its development properties as security. Upon completion of the properties, it is the Company's intention to replace the construction financing with long-term financing.

## Unsecured Debt

*Corporate Non-Asset Backed Bonds* – The corporate non-asset backed bonds consist of seven year bonds issued in series and secured by a guarantee from HII. The bonds mature between May and October 2013 and the Company has the option to redeem any series of bonds at their principal amount at any time subsequent to the fifth anniversary of the issue of the bonds. The interest is payable semi-annually on June 30 and December 31.

In thousands

<u>Bond Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>2006</u>
HB8	May 31, 2013	7.00%	EUR €50,010	\$77,012
HB9	October 31, 2013	7.00%	EUR €53,900	83,003
<b>Total</b>				<b>\$160,015</b>

*Junior Subordinated Notes* – The junior subordinated notes require interest only payments until maturity in 2036. The notes, which consist of EUR €25 million, and USD \$20 million have a fixed interest rate until 2016 and variable thereafter until maturity. The Company has a redemption option effective in 2011 until maturity.

## Debt Maturities

The following table outlines the Company's principal payments and debt maturity balances relating to mortgages and mortgage bonds payable, the unsecured corporate non-asset backed bonds and the unsecured junior subordinated notes as at December 31, 2006.

In thousands except for ratios	Normal	Principal	Bonds and Junior	Percentage	
	Principal				
	<u>Instalments</u>	<u>Maturities</u>	<u>Subordinated</u> <u>Notes</u>	<u>Total</u>	<u>of Total</u>
2007.....	\$18,003	\$54,646	-	\$72,649	4.5%
2008.....	19,349	9,354	-	28,703	1.8%
2009.....	22,385	1,522	19,674	43,581	2.7%
2010.....	20,801	37,960	46,198	104,959	6.6%
2011.....	25,383	17,349	61,628	104,360	6.5%
Subsequent years.....	-	927,502	318,026	1,245,528	77.9%
<b>Total.....</b>	<b>\$105,921</b>	<b>\$1,048,333</b>	<b>\$445,526</b>	<b>\$1,599,780</b>	<b>100.0%</b>

Weighted average interest rate ..... 5.713%

## PROPERTIES OF HII

### Overview of Properties

HII owns commercial real estate properties located in Newfoundland and Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Quebec, Ontario, Alberta and British Columbia in Canada, Texas and Colorado in the United States and Germany and the Netherlands in Europe. The following table sets forth the portfolio of properties currently owned together with particulars of acquisitions finalized in 2006.

### Properties Owned as at December 31, 2006

Limited Partnership, Property and Location	Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006	Residential Units Occupied/Total Dec. 31, 2006	Percentage Leased	Percentage Owned
<b>HOMCO REALTY FUND (1) LP</b>				
The Ambassador Apartments 356 Windmill Road Dartmouth, Nova Scotia, Canada		42/44	95%	100%
<b>HOMCO REALTY FUND (2) LP</b>				
Highfield Park Apartments 31 Highfield Drive Dartmouth, Nova Scotia, Canada		35/36	97%	100%
Highfield Park Apartments 35 Highfield Drive Dartmouth, Nova Scotia, Canada		37/37	100%	100%
Highfield Park Apartments 11 Joseph Young Drive Dartmouth, Nova Scotia, Canada		36/36	100%	100%
<b>HOMCO REALTY FUND (4) LP</b>				
141 Albro Lake Road Dartmouth, Nova Scotia, Canada		11/12	92%	100%
295 George Street Sydney, Nova Scotia, Canada	9,820/15,225		64%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (7) LP</b>				
Homburg Renaissance South 1313 Barrington Street, 5157 Morris Street & 1310 Hollis Street Halifax, Nova Scotia, Canada	28,524/28,524	35/38	100% 92%	100%
<b>HOMCO REALTY FUND (8) LP</b>				
Homburg Commercial Centre 2 Morris Drive 11 Akerley Blvd. Dartmouth, Nova Scotia, Canada	105,949/105,949 21,365/21,365		100% 100%	100% 100%
<b>HOMCO REALTY FUND (9) LP</b>				
640-820 28 <sup>th</sup> Street N.E. Calgary, Alberta, Canada	149,358/175,863		85%	100%
<b>HOMCO REALTY FUND (12) LP</b>				
Confederation Court Complex Charlottetown, PEI, Canada	209,214/232,856		90%	100%
<b>HOMCO REALTY FUND (13) LP</b>				
Crowfoot Square 800-842 Crowfoot Crescent N.W. Calgary, Alberta, Canada	19,728/19,728		100%	100%
<b>HOMCO REALTY FUND (14) LP</b>				
2067-50 <sup>th</sup> Avenue Red Deer, Alberta, Canada	13,751/13,751		100%	100%
<b>HOMCO REALTY FUND (15) LP</b>				
Centron Corners 221 – 62 <sup>nd</sup> Avenue SE 253 – 62 <sup>nd</sup> Avenue SE 6223 – 2 <sup>nd</sup> Street SE 6227 – 2 <sup>nd</sup> Street SE Calgary, Alberta, Canada	7,685/7,685 8,180/8,180 13,736/13,736 30,554/30,554		100% 100% 100% 100%	100% 100% 100% 100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (16) LP</b>				
1199 St. George Boulevard Moncton, New Brunswick, Canada	60,000/60,000		100%	100%
140 Commerce Street Moncton, New Brunswick, Canada	65,600/65,600		100%	100%
150 Henri Dunant Street Moncton, New Brunswick, Canada	54,000/54,000		100%	100%
<b>HOMCO REALTY FUND (17) LP</b>				
Willowbend Court Executive Townhouses 211-221 Glenforest Drive Halifax, Nova Scotia, Canada		47/50	94%	100%
<b>HOMCO REALTY FUND (20) LP</b>				
1741 Brunswick St. Halifax, Nova Scotia, Canada	103,364/104,044		99%	38%
<b>HOMCO REALTY FUND (21) LP</b>				
Vintage Park 807-42 <sup>nd</sup> Avenue SE Calgary, Alberta, Canada	77,940/77,940		100%	5.79%
<b>HOMCO REALTY FUND (22) LP</b>				
Bathurst Mall 1300 St. Peter Avenue Bathurst, New Brunswick, Canada	215,472/216,323		99%	5.63%
<b>HOMCO REALTY FUND (24) LP</b>				
715 Laurier Street 735 Laurier Street 678 Evangeline Street Dieppe, New Brunswick, Canada		72/72	100%	100%
<b>HOMCO REALTY FUND (25) LP</b>				
Sunridge Retail Centre 3660 – 20 <sup>th</sup> Avenue NE Calgary, Alberta, Canada	23,696/23,696		100%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (26) LP</b>				
Fanny's Bow Trail 4033 Bow Trail SW Calgary, Alberta, Canada	9,200/9,200		100%	38.46%
<b>HOMCO REALTY FUND (29) LP</b>				
Flamingo Block 229 – 11 <sup>th</sup> Avenue SE Calgary, Alberta, Canada	17,883/17,883		100%	55.55%
<b>HOMCO REALTY FUND (30) LP</b>				
Shippagan Mall 231 J.D. Gauthier Boulevard Shippagan, New Brunswick, Canada	65,363/70,035		93%	100%
<b>HOMCO REALTY FUND (31) LP</b>				
123 Halifax Street Moncton, New Brunswick, Canada	80,693/80,693		100%	100%
114 Price Street Moncton, New Brunswick, Canada	182,582/182,582		100%	100%
33 Henri Dunant Street Moncton, New Brunswick, Canada	118,354/118,354		100%	100%
20 Record Street Moncton, New Brunswick, Canada	51,438/51,438		100%	100%
11 Wright Street Sackville, New Brunswick, Canada	19,585/19,585		100%	100%
24 Carr Crescent Gander, Newfoundland, Canada	60,410/60,410		100%	100%
1 McLean Court Port Hawkesbury, Nova Scotia, Canada	17,259/17,259		100%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (32) LP</b>				
Dartmouth Shopping Centre 118 Wyse Road Halifax, Nova Scotia, Canada	81,531/89,266		91%	100%
Wendy's Wyse Road Halifax, Nova Scotia, Canada	27,600/27,600		100%	100%
<b>HOMCO REALTY FUND (33) LP</b>				
4124-9 <sup>th</sup> Street SE Calgary, Alberta, Canada	46,976/46,976		100%	100%
<b>HOMCO REALTY FUND (34) LP</b>				
Manning Drive and 139 <sup>th</sup> Avenue Edmonton, Alberta, Canada	12,349/12,349		100%	100%
<b>HOMCO REALTY FUND (37) LP</b>				
Hammond Centre 950 Bedford Highway Bedford, Nova Scotia, Canada	23,457/23,457		100%	100%
<b>HOMCO REALTY FUND (38) LP</b>				
Sackville Centre 619 Sackville Drive Sackville, Nova Scotia, Canada	8,170/9,970		82%	100%
<b>HOMCO REALTY FUND (39) LP</b>				
Sandpiper Centre 69-81 Cow Bay Road Cow Bay, Nova Scotia, Canada	12,195/14,665		83%	100%
<b>HOMCO REALTY FUND (40) LP</b>				
Zellers 24 Stavenger Drive St. John's, Newfoundland, Canada	107,400/107,400		100%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (41) LP</b>				
Zellers 194 Chainlake Drive Bayers Lake Business Park Halifax, Nova Scotia, Canada	112,423/112,423		100%	100%
<b>HOMCO REALTY FUND (42) LP</b>				
Zellers 100 Rue St. Jude Granby, Quebec, Canada	114,259/114,259		100%	100%
<b>HOMCO REALTY FUND (43) LP</b>				
Zellers Meadowlands Centre 60 Martindale Crescent Ancaster, Ontario, Canada	108,628/108,628		100%	100%
<b>HOMCO REALTY FUND (44) LP</b>				
Zellers 129 Queensway East Simcoe, Ontario, Canada	74,250/74,250		100%	100%
<b>HOMCO REALTY FUND (45) LP</b>				
Zellers Listowel Carriage Shopping Centre 600 Mitchell Road South Listowel, Ontario, Canada	80,005/80,005		100%	100%
<b>HOMCO REALTY FUND (46) LP</b>				
Zellers Westbank Shopping Centre Westbank, British Columbia, Canada	105,670/105,670		100%	100%
<b>HOMCO REALTY FUND (49) LP</b>				
Clareview Courts 139 <sup>th</sup> Avenue & 42 <sup>nd</sup> Street S.W. Edmonton, Alberta, Canada		9/11	82%	5%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (52) LP</b> NW Quarter of Section Eleven Township 26, Range 1 West of the Fifth Meridian Calgary, Alberta, Canada	160 acres of land		N/A	100%
<b>HOMCO REALTY FUND (55) LP</b> 10 Locations – Pizza Hut Province of Quebec, Canada	39,604/39,604		100%	100%
<b>HOMCO REALTY FUND (56) LP</b> Foothills Centre 6222-36 <sup>th</sup> Street SE Calgary, Alberta, Canada	20,675/20,675		100%	100%
<b>HOMCO REALTY FUND (57) LP</b> Shannon Plaza 451 Windmill Road Halifax, Nova Scotia, Canada	16,062/16,849		95%	100%
<b>HOMCO REALTY FUND (59) LP</b> Blackfoot Corporate Centre 4411-6 <sup>th</sup> Street SE Calgary, Alberta, Canada	40,845/40,845		100%	100%
<b>HOMCO REALTY FUND (61) LP</b> Homburg-Harris Centre (Office) 207, 9 <sup>th</sup> Avenue SW Calgary, Alberta, Canada	1.49 acres of land		N/A	100%
<b>HOMCO REALTY FUND (62) LP</b> Citadel West (Office) 530 & 540-12 <sup>TH</sup> Avenue SW Calgary, Alberta, Canada	.41 acres of land		N/A	100%
<b>HOMCO REALTY FUND (63) LP</b> Residence-Eau Claire (Condos) 307-6 <sup>th</sup> Street SW Calgary, Alberta, Canada	.37 acres of land		N/A	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (64) LP</b>				
Inverness Estates (Condos) Meridian 6, Range 6 Township 71 Grande Prairie, Alberta, Canada	6 acres of land		N/A	100%
<b>HOMCO REALTY FUND (67) LP</b>				
Castello Towers (Condos) 522A & 526 – 12 <sup>th</sup> Avenue SW Calgary, Alberta, Canada	0.41 acres of land		N/A	100%
<b>HOMCO REALTY FUND (68) LP</b>				
Furtherstrabe 205-215 Wandererstrabe 159 Nürnberg, Germany	2,605,760/2,605,760		100%	100%
<b>HOMCO REALTY FUND (69) LP</b>				
Philippstrasse 3 Bochum, Germany	285,355/285,355		100%	100%
<b>HOMCO REALTY FUND (70) LP</b>				
Elbetrasse 1-3 Marl, Germany	169,178/169,178		100%	100%
Binnerheide 26 Schwerte, Germany	54,584/54,584		100%	100%
Industriestrasse 19 Hassmersheim, Germany	304,567/304,567		100%	100%
Wolframweg 2 Wolvega, the Netherlands	191,936/191,936		100%	100%
<b>HOMCO REALTY FUND (71) LP</b>				
Meidoornkade 22-24 Houten, the Netherlands	193,978/193,978		100%	100%
<b>HOMCO REALTY FUND (72) LP</b>				
Industriestraat 6, 8, & 10 Numansdorp, the Netherlands	92,517/92,517		100%	100%
<b>HOMCO REALTY FUND (73) LP</b>				
Fortanweg 10 Amersfoot, the Netherlands	100,514/100,514		100%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (74) LP</b> Industrielaan 24 Uden, the Netherlands	437,285/437,285		100%	100%
<b>HOMCO REALTY FUND (76) LP</b> Daalakkersweg 2-2a & 8 Eindhoven, the Netherlands	364,921/364,921		100%	100%
<b>HOMCO REALTY FUND (77) LP</b> 846 Park Street Kentville, Nova Scotia, Canada	14,700/14,700		100%	100%
<b>HOMCO REALTY FUND (81) LP</b> Centre LaMarche 155-25 <sup>th</sup> Avenue Saint-Eustache, Québec	7,406/7,406		100%	100%
<b>HOMCO REALTY FUND (83) LP</b> 135-137 Pownal Street (Condos) Charlottetown, Prince Edward Island, Canada	1.0 acre of land		N/A	100%
<b>HOMCO REALTY FUND (88) LP</b> Homburg-Kai Mortensen Towers 1215-1239 11 <sup>TH</sup> Avenue SW Calgary, Alberta, Canada	1.04 acres of land		N/A	100%
<b>HOMCO REALTY FUND (89) LP</b> Centron Park, Blackfoot Trail 4041 6 <sup>th</sup> Street SW Calgary, Alberta, Canada	19.25 acres of land		N/A	100%
<b>HOMCO REALTY FUND (92) LP</b> Industrieweg 6-8 & 9 Nijverheidsweg 12, 14-14a, 18-18a 't Harde the Netherlands	141,395/147,045		96%	100%

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
<b>HOMCO REALTY FUND (102) LP</b>				
Hardwareweg 11 Amersfoort the Netherlands	52,948/52,948		100%	100%
<b>HOMBURG HOLDINGS (US) INC.</b>				
555 East Pikes Peak Avenue Colorado Springs, Colorado, USA	37,251/37,251		100%	100%
557 East Pikes Peak Avenue Colorado Springs, Colorado, USA	27,000/27,000		100%	100%
559 East Pikes Peak Avenue Colorado Springs, Colorado, USA	27,425/30,137		91%	100%
4575 Hilton Parkway Colorado Springs, Colorado, USA	8,898/9,998		89%	100%
3535 Van Teylingen Drive Colorado Springs, Colorado, USA	10,335/10,335		100%	100%
669 Airport Freeway Hurst, Texas, USA	45,808/53,265		86%	100%
15510 Lexington Boulevard Sugarland, Texas, USA	16,399/17,825		92%	100%
3740 Colony Drive San Antonio, Texas, USA	21,481/23,606		91%	100%
8400 Blanco Road San Antonio, Texas, USA	11,090/14,986		73%	100%
10800 and 10829 Hillpoint Drive San Antonio, Texas, USA	20,439/22,216		92%	100%
4718 and 4738 Cotton Belt Drive San Antonio, Texas, USA	22,474/22,474		100%	100%
6112 McCart Avenue Fort Worth, Texas, USA	16,927/16,927		100%	100%

The following summarizes the properties owned directly by HII:

<b>Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>Percentage Leased</b>	<b>Percentage Owned</b>
535 Yates Street Victoria, British Columbia, Canada	15,191/19,397		78%	100%
Cariboo Building 1801/1873 First Avenue Prince George, British Columbia, Canada	66,679/78,819		85%	100%

### Properties purchased in 2006

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>% Leased</b>	<b>% Owned</b>	<b>Acquisition Date</b>
<b>HOMCO REALTY FUND (84) LP</b>					
Stationsplein, 7 & 9 Groningen, the Netherlands	248,924/248,924		100%	100%	June 2006
<b>HOMCO REALTY FUND (85) LP</b>					
Mathildelaan 1 Eindhoven, the Netherlands	426,900/426,900		100%	100%	June 2006
<b>HOMCO REALTY FUND (86) LP</b>					
Benthemstraat 10 Rotterdam, the Netherlands	75,670/75,670		100%	100%	June 2006
<b>HOMCO REALTY FUND (87) LP</b>					
Energielegweg 9 Rotterdam, the Netherlands	35,306/35,306		100%	100%	June 2006
<b>HOMCO REALTY FUND (91) LP</b>					
20, rue de Toulouse, Granby, Quebec, Canada	4,400/4,400		100%	100%	February 2006
8 boul. Bromont, Bromont, Quebec, Canada	4,400/4,400		100%	100%	February 2006
50 boul. Lionel-Groulx, Sherbrooke, Quebec, Canada	4,800/4,800		100%	100%	February 2006
641 King Street East, Gananoque, Ontario, Canada	1,875/1,875		100%	100%	February 2006
39 Warne Crescent, Kingston, Ontario, Canada	4,700/4,700		100%	100%	February 2006

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>% Leased</b>	<b>% Owned</b>	<b>Acquisition Date</b>
268 North Front Street, Belleville, Ontario, Canada	4,500/4,500		100%	100%	February 2006
1 Commerce Court, Lindsay, Ontario, Canada	4,700/4,700		100%	100%	April 2006
429/431 Kent Street West, Lindsay, Ontario, Canada	6,238/6,238		100%	100%	February 2006
Old Highway #2, Trenton, Ontario, Canada	4,300/4,300		100%	100%	February 2006
<b>HOMCO REALTY FUND (94) LP</b>					
Homburg Springs West NW ¼ Section 10 Township 26, Range 1 Calgary, Alberta, Canada	140 acres of land		N/A	100%	March 2006
<b>HOMCO REALTY FUND (95) LP</b>					
Western Financial Place Highway 2 High River, Alberta, Canada	30,000/30,000		100%	100%	June 2006
<b>HOMCO REALTY FUND (96) LP</b>					
Points North Calgary, Alberta, Canada	184 Acres		N/A	100%	June 2006
<b>HOMCO REALTY FUND (98) LP</b>					
Carat Park Teucheler Weg/Feldstrasse Lutherstadt Wittenburg, Germany	198,592/198,592		100%	100%	March 2006
<b>HOMCO REALTY FUND (103) LP</b>					
170 LaBelle Blvd, Rosemere, Quebec, Canada	3,314/3,314		100%	100%	April 2006
101 Blvd Arthur Arthur Sauve, St. Eustache, Quebec, Canada	2,508/2,508		100%	100%	April 2006
255 Cremazie Blvd, Montreal, Quebec, Canada	3,945/3,945		100%	100%	April 2006
2986 St. Charles Blvd, Kirkland, Quebec, Canada	2,497/2,497		100%	100%	April 2006
<b>HOMCO REALTY FUND (105) LP</b>					
Homburg Holland Towers Calgary, Alberta, Canada	0.67 acres of land		N/A	100%	June 2006

<b>Limited Partnership, Property and Location</b>	<b>Commercial Square Footage Leased/ Total Leasable Dec. 31, 2006</b>	<b>Residential Units Occupied/Total Dec. 31, 2006</b>	<b>% Leased</b>	<b>% Owned</b>	<b>Acquisition Date</b>
<b>HOMCO REALTY FUND (106) LP</b>					
1075-1095 Wilfred Hamel Blvd., Quebec City, Quebec, Canada	10,083/10,083		100%	100%	August 2006
<b>HOMCO REALTY FUND (110) LP</b>					
AM Campeon 1 1-12, 85579 Neubiberg, Germany (Munich)	1,479,813/1,479, 813		100%	100%	May 2006
<b>HOMCO REALTY FUND (111) LP</b>					
Tarasconweg 2, Eindhoven, the Netherlands	84,615/84,615		100%	100%	Dec 2006
<b>HOMCO REALTY FUND (112) LP</b>					
Valkstraat 14, Sittard, the Netherlands	27,560/27,560		100%	100%	Dec 2006
<b>HOMCO REALTY FUND (113) LP</b>					
Corkstraat 38-46 Sheffield Straat 21-39 Stuttgartstraat 30-34 Rotterdam, the Netherlands	150,932/150,932		100%	100%	Dec 2006
<b>HOMCO REALTY FUND (114) LP</b>					
Beelarts van Bloklandstraat 10-14, Tilburg, the Netherlands	237,615/237,615		100%	100%	Dec 2006
<b>HOMCO REALTY FUND (140) LP</b>					
Bouwfonds Partnership Berri, Saint-Hubert Saint-Antine Street Montréal, Québec, Canada	5.3 acres of land		N/A	33.33%	April 2006
333 Sherbrooke Street East (Condos) Montréal, Québec, Canada	Development Site		N/A	33.33%	Dec 2006

### *Description of Properties*

#### Homco Realty Fund (1) LP, The Ambassador, 356 Windmill Road Dartmouth, NS, Canada

The Ambassador was constructed in 1985 as a three-storey, 44-unit apartment hotel and converted to full-time apartment residences in the early 1990's. The ground cover of the building has been

calculated at 9,331 square feet and the gross area at 28,800 square feet of finished area.

Homco Realty Fund (2) LP, Highfield Park Apartments, 31 Highfield Drive, Dartmouth, NS, Canada

This property is located in the area of the City designated as Highfield Park. Constructed in 1988, the property is comprised of a 36-unit, three-storey apartment building containing 27,195 square feet.

Homco Realty Fund (2) LP, Highfield Park Apartments, 35 Highfield Drive, Dartmouth, NS, Canada

This property is located in the area of the City designated as Highfield Park. Constructed in 1988, the property is comprised of a 37-unit apartment building containing 29,259 square feet.

Homco Realty Fund (2) LP, Highfield Park Apartments, 11 Joseph Young Drive, Dartmouth, NS, Canada

This property is located in the area of the City designated as Highfield Park. Constructed in 1988, the property is comprised of a 36-unit apartment building containing 27,195 square feet.

Homco Realty Fund (4) LP, 141 Albro Lake Road, Dartmouth, NS, Canada

Located in the North section of Dartmouth in a predominately residential area. The building contains 12 residential apartment units and is situated on an 18,000 square foot lot with a ground cover of 3,348 square feet and a gross area of 10,044 square feet.

Homco Realty Fund (4) LP, 295 George Street, Sydney, NS, Canada

Located in Sydney's downtown business core, this three-storey office building contains 15,725 leaseable square feet. and sits on a 27,222 square foot lot.

Homco Realty Fund (7) LP, Homburg Renaissance South, 1313 Barrington Street, 5157 Morris Street & 1310 Hollis Street, Halifax, NS, Canada

The property contains a five-storey residential building plus two storeys of commercial space containing a gross rentable area of 28,815 square feet and 75 underground parking spaces. The 38 residential units total 40,529 square feet.

Homco Realty Fund (8) LP, Homburg Commercial Centre, 2 Morris Drive/11 Akerley Blvd., Dartmouth, NS, Canada

The building was erected in two distinct phases. The first section (2 Morris Drive) completed in 1973 contains 105,949 square feet of office and warehouse. A 21,365 square foot office retail addition was completed in 1987.

Homco Realty Fund (9) LP, 640-820 - 28th Street NE, Calgary, AB, Canada

Constructed in 1979, the property is comprised of two buildings situated on three lots containing in total 9.45 acres (3.82 ha). One building, with a gross area of 158,100 square feet. is an office/warehouse/retail configuration. The other building is a two-storey office building with a gross area of 37,800 square feet.

Homco Realty Fund (9) LP, 40 Elizabeth Street, Okotoks, AB, Canada – Sold September 2006

Homco Realty Fund (12) LP, Confederation Court Complex, Charlottetown, PEI, Canada

This development is the major retail/office complex in downtown Charlottetown, PEI. Constructed in

two phases, 1980 and 1990, the first phase tied together 17 buildings comprising an entire city block and added a 3 level center court and a 120,000 square foot office building. In 1990 an 85,000 square foot office building was constructed across the street and connected via an over-street pedway.

Homco Realty Fund (13) LP, Crowfoot Square, 800-842 Crowfoot Crescent NW, Calgary, AB, Canada

The 1.86-acre site has been improved with the construction of two retail, strip-mall-type buildings. These buildings were completed in the fall of 1998. The larger building (196.8 feet x 72.2 feet) was designed and constructed to house up to seven tenants. The net rentable area has been calculated at 14,150 square feet while the smaller building was designed as a bank facility with a net rentable area of 5,578 square feet.

Homco Realty Fund (14) LP, 2067-50th Avenue, Red Deer, AB, Canada

The property contains 43,998 square feet and is improved with a single-storey retail strip mall constructed in 1998. It has a rental area of 13,751 square feet which is currently occupied by two tenants, although originally designed to house three individual tenants.

Homco Realty Fund (15) LP, Centron Corners, 221-253 62nd Avenue SE & 6223-6227 2nd Street SE, Calgary, AB, Canada

The property contains four buildings situated at the corner of 62<sup>nd</sup> Avenue S.E. and 2<sup>nd</sup> Street S.E. The following is a brief description of each building:

Building #1 is the original building on site and was constructed in the mid-1960's. Although the building consists of 15,000 square feet, it is on condominium title and only Unit 2 was purchased containing a rentable area of approximately 7,685 square feet of office space.

Building #2 was constructed in late 1997 for industrial use. The gross area of the building is 8,200 square feet and the net rentable area of 8,180 square feet is currently leased to two tenants.

Building #3 was constructed in early 1997 for office/industrial use. This building has a gross area of approximately 14,200 square feet with a net leaseable area of 13,736 square feet currently divided among five tenants, the largest tenant occupying 4,000 square feet.

Building #4 was constructed for office/industrial use. The building has a leaseable area of 30,554 square feet.

Homco Realty Fund (16) LP, 1199 St. George Boulevard, Moncton, NB, Canada

Constructed in two phases, the original 30,000 square foot component was completed in May 1995. A 30,000 square foot mirror image was completed in October 1996. The 60,000 square foot single-storey office building is located on a 6.1-acre park-like site near the center of the City.

Homco Realty Fund (16) LP, 140 Commerce Street, Moncton, NB, Canada

The original building containing 20,553 square feet completed in 1996 has been expanded to a total area of 65,600 square feet. The building is located in the City's newest industrial park on a 3.67-acre site and will contain industrial tenants.

Homco Realty Fund (16) LP, 150 Henri Dunant Street, Moncton, NB, Canada

Constructed in 1973, the building received a retrofit in 1997. The 54,000 square foot. building is situated on a 1.9-acre site in the Moncton Industrial Park and contains an industrial tenant.

Homco Realty Fund (17) LP, Willowbend Court Executive Townhouses, 211-221 Glenforest Drive, Halifax, NS, Canada

Willowbend Court is a residential development situated in the Clayton Park area of the Halifax Regional Municipality. Willowbend is comprised of 50 attached townhouse units, grouped in five (5) buildings around a common court.

Homco Realty Fund (20) LP, 1741 Brunswick St., Halifax, NS, Canada

Constructed in 1987, a modern Class A office building located in the central business district of Halifax, Nova Scotia. The building contains 104,044 square feet of leaseable area.

Homco Realty Fund (21) LP, Vintage Park, 807-42nd Avenue SE, Calgary, AB, Canada

Construction was completed in 2002. The property consists of three buildings containing a total of 77,940 square feet. Building A is a single-storey structure containing 10,346 square feet while buildings B and C are both two storey and contain 33,916 square feet and 33,485 square feet respectively. Construction is of open web steel joists and steel columns, plus perimeter metal stud infill walls and demising walls with the exterior being a combination of insulated tinted glass and brick veneer. The site contains approximately 4.11 acres and provides 222 energized parking stalls.

Homco Realty Fund (22) LP, Bathurst Mall, 1300 St. Peter Avenue, Bathurst, NB, Canada

Originally constructed in 1968, the mall underwent major renovation in 1989 and in 1998 a small addition was constructed at the front of the mall. Total area of the mall is approximately 224,000 square feet with a partial second floor of 14,700 square feet and a partial basement of 10,000 square feet. The site contains approximately 19.5 acres and provides parking for 1,050 automobiles. The anchor tenants are Sears, Zellers, Staples, Marks Work Warehouse and The Bank of Nova Scotia.

Homco Realty Fund (24) LP, 715 Laurier Street, 735 Laurier Street, & 678 Evangeline Street, Dieppe, NB, Canada

Constructed in 1997 the subject improvements consist of three three-story apartment buildings each containing 12 two-bedroom units and 12 one-bedroom units. Each building has a gross area of 22,770 square feet for a total of 68,328 square feet. On-site parking is provided for each unit.

Homco Realty Fund (25) LP, Sunridge Retail Centre, 3660 – 20th Avenue NE, Calgary, AB, Canada

Sunridge Retail Shopping Centre is situated on approximately 2.06 acres of land, was built in 1993 and provides 23,696 square feet of leaseable retail space. The surface parking accommodates 130 automobiles.

Homco Realty Fund (26) LP, Fanny's Bow Trail, 4033 Bow Trail SW, Calgary, AB, Canada

The property is a single-tenant retail building constructed in 1993 with a poured concrete slab, main floor of 7,200 square feet plus mezzanine of 2,000 square feet providing a total of 9,200 square feet leaseable area. Construction is of concrete block with a flat roof. The site contains approximately .43 acres and provides for approximately 10,000 square feet of paved parking.

Homco Realty Fund (28) LP, Fanny's Costco, 158, 37400 Highway 2, Red Deer, AB, Canada – Sold December 2006

Homco Realty Fund (29) LP, Flamingo Block, 229 – 11th Avenue SE, Calgary, AB, Canada

Built in 1952 and totally renovated in 2003 including all mechanical and electrical systems, the building provides for 17,833 square feet of leaseable office space on three levels. The building is of frame construction with brick veneer and flat roof. The site contains 12,246 square feet and provides paved surface parking for 18 vehicles.

Homco Realty Fund (30) LP, Shippagan Mall, 231 J.D. Gauthier Boulevard, Shippagan, NB, Canada  
Situated on 3.94 acres of land, Le Carrefour Shippagan is the major shopping plaza in the community and provides for 70,035 square feet leaseable and parking for 400 vehicles. The major tenants are a Save Easy grocery store, Shoppers Drug Mart, National Bank and a Sears' outlet.

Atlantic Co-op Portfolio - Homco Realty Fund (31) LP

123 Halifax Street, Moncton, NB, Canada

The asset is comprised of two separate parcels of land. One containing 47,524 square feet is utilized for parking. The other containing 52,055 square feet is improved with an office building containing gross area of 80,693 square feet built in two stages – two storey wing in 1961 and six storey wing in 1977. Co-op Atlantic occupies all but 6,000 square feet which is leased to Print Atlantic.

114 Price Street, Moncton, NB, Canada

The property consists of an 8.67 acre industrial site and is improved with a steel-framed warehouse with a gross floor area of 182,582 square feet. The original structure was built in 1968 with additions in 1972 and 1986. Co-op Atlantic occupies the entire building.

33 Henri Dunant Street, Moncton, NB, Canada

The property consists of a 5.11 acres industrial site and is improved with an 118,354 square foot. steel framed warehouse building constructed in 1969. Co-op Atlantic occupies the entire building.

20 Record Street, Moncton, NB, Canada

Built in 1962, but totally retrofitted in the late 1990's, the 51,438 square foot building has housed Co-op Atlantic's Moncton dry goods store since it was built. The site contains 3.813 acres and provides ample parking for the stores requirements.

11 Wright Street, Sackville, NB, Canada

The property consists of 1.853 acre commercial site and is improved with a modern, 1998, purpose built Co-op Atlantic grocery store. In 2002, an addition was constructed to house a New Brunswick Liquor retail outlet. The building totals 19,585 square feet and the site provides suitable parking and expansion possibilities.

22 Carr Crescent, Gander, NF, Canada

The property contains 3.9025 acres and is improved with a modern (1982 & 1989) warehouse structure containing 60,410 square feet (including 7,584 square foot mezzanine) with 27 feet clear height. The building is the area distribution center for Co-op Atlantic.

1 McLean Court, Port Hawkesbury, NS, Canada

Built in 1989, the subject property consists of a single-storey grocery store building containing 17,259 square feet on a three-acre site.

Homco Realty Fund (32) LP, Dartmouth Shopping Centre, 118 Wyse Road, Halifax, NS, Canada

Situated on 6.43 acres of land, the improvements comprise of a 87,030 square foot strip shopping plaza. Anchor tenants are a 27,981 square foot food market and a 13,704 square foot Shoppers Drug Mart store. Parking for 406 cars is provided.

Homco Realty Fund (32) LP, Dartmouth Shopping Centre, 118 Wyse Road, Halifax, NS, Canada  
3,000 square foot free standing Wendy's restaurant constructed in 2006.

Homco Realty Fund (33) LP, 4124-9<sup>th</sup> Street SE, Calgary, AB, Canada  
Located in Foothills Industrial Park and only minutes from downtown, this building contains 46,976 square feet leaseable.

Homco Realty Fund (34) LP, Manning Drive & 139<sup>th</sup> Avenue, Edmonton, AB, Canada  
Located in NE Edmonton, this 12,349 square foot retail store is part of the Manning Crossing Retail Centre.

Homco Realty Fund (36) LP, Courtesy Chrysler, 461 Windmill Road, Halifax, NS, Canada – Sold December 2005

Homco Realty Fund (37) LP, Hammond Centre, 950 Bedford Highway, Bedford, NS, Canada  
Situated on 1.69 acres of land, the property improvements consist of a two-storey retail office facility providing 23,457 square feet leaseable and paved parking for 90 cars. The structure was built in 1994 and the anchor tenant is Shoppers Drug Mart.

Homco Realty Fund (38) LP, Sackville Centre, 619 Sackville Drive, Sackville, NS, Canada  
Constructed in 1992, the building is a single-storey wood frame strip plaza containing 9,970 square feet situated on 50,144 square feet of land. The anchor tenant is Royal Bank of Canada which occupies 1,800 square feet.

Homco Realty Fund (39) LP, Sandpiper Centre, 69-81 Cow Bay Road, Cow Bay, NS, Canada  
The subject site comprises of three lots totalling 58,761 square feet which are improved with three wood frame, single-storey buildings constructed in 1991. Anchor tenants are the Nova Scotia Liquor Commission at 4,000 square feet and Credit Union Atlantic at 2,470 square feet. Total leaseable space is 14,665 square feet.

Zellers Portfolio - Homco Realty Fund (40) (41) (42) (43) (44) (45) (46) LP

Stavenger Drive, St. John's, NF, Canada  
Situated on 10.13 acres of land, the subject building comprises 107,400 square feet purpose built Zellers store constructed in 1994.

194 Chainlake Drive, Bayers Lake Business Park, Halifax, NS, Canada  
Situated on 9.05 acres of land, the subject building comprises 112,423 square feet purpose built Zellers store constructed in 1995.

100 Rue St. Jude, Granby, QC, Canada  
Situated on 11.48 acres of land, the subject building comprises 114,259 square feet purpose built Zellers store constructed in 1998.

Meadowlands Centre, 60 Martindale Crescent, Ancaster, ON, Canada  
Situated on 8.51 acres of land, the subject building comprises 108,628 square feet purpose built Zellers store constructed in 1999.

129 Queensway East, Simcoe, ON, Canada

Situated on 9.11 acres of land, the subject building comprises 74,250 square feet purpose built Zellers store constructed in 1999.

Listowel Carriage Shopping Centre, 600 Mitchell Road South, Listowel, ON, Canada

Situated on 7.08 acres of land, the subject building comprises 80,005 square feet purpose built Zellers store constructed in 1995.

Westbank Shopping Centre, Westbank, BC, Canada

Situated on 7.45 acres of land, the subject building comprises 105,670 square feet purpose built Zellers store constructed in 1995.

Homco Realty Fund (49) LP, 139<sup>th</sup> Avenue and 42<sup>nd</sup> Street, Edmonton, AB, Canada

Clareview Courts apartments consisting of 226 residential units on 2.5 acres of land.

Homco Realty Fund (52) LP, NW Quarter of Section Eleven, Township 26, Range 1, West of the Fifth Meridian, Calgary, AB, Canada

A residential development site containing approximately 143 acres of land. The site is expected to yield a total of 3,700 residential units.

Homco Realty Fund (53) LP, Homburg North Campus, Meridian 4, Range 29, Township 26, Section 9, AB, Canada – Sold January 2006

Pizza Hut Portfolio - Homco Realty Fund (55) LP

Ten Pizza Hut locations in the Province of Quebec totalling 39,604 square feet of building area. The properties are under a long term lease with Prizm Brands Inc. expiring in 2016.

Homco Realty Fund (56) LP, Foothills Center, 6222 – 36<sup>th</sup> Street SE, Calgary, AB, Canada

A 20,675 square foot shopping plaza situated on 1.86 acres of land. Parking for 126 cars is available and the anchor tenant is the Royal Bank of Canada which occupies approximately 20% of the total leaseable area.

Homco Realty Fund (57) LP, Shannon Plaza, 451 Windmill Road, Halifax, NS, Canada

A 16,849 square foot shopping plaza situation on 60,292 square feet of land. The primary tenants are a 2,908 square foot food store and 6,873 square foot restaurant.

Homco Realty Fund (59) LP, Land – Blackfoot Corporate Centre, 4411-6<sup>th</sup> Street, SE, Calgary, AB, Canada

2.7 acres of land. Property provides 40,845 square feet of office space with parking for 150 cars.

Homco Realty Fund (61) LP, 207 9<sup>th</sup> Avenue SW, Calgary, AB, Canada

1.49 acres of land. The site will be developed with a 675,000 square foot twin tower office complex with ground level retail space. The first tower of approximately 220,000 square feet has been preleased.

Homco Realty Fund (62 & 67) LP, Land – Citadel West – Castello Towers – 540-12<sup>th</sup> Avenue SW, Calgary, AB, Canada

Construction of twin tower project consisting of 76,000 square foot office tower and 100 unit condominium tower with units from 900 to 1,300 square feet. The office tower is pre-leased.

Homco Realty Fund (63) LP, Land – Residence-Eau Claire, 307-6<sup>th</sup> Street SW, Calgary, AB, Canada

Construction of 11 storey, 44 unit luxury condominium project with units from 1,000 to 1,900 square feet.

Homco Realty Fund (64) LP, Meridian 6, Range 6 Township 71, Grande Prairie, AB, Canada

6 acres of land acquired for the construction of 250 condominium units in 3 buildings.

Homco Realty Fund (68) LP, Fürtherstrabe 205-215, Wandererstrabe 159, Nürnberg, Germany

Leased to Quelle AG Trading the complex is located on a main traffic artery 2.5 kilometers from the city centre and Central Station and has direct access to key municipal roads as well as the A73 expressway. It is easy to reach by car, tram and underground subway station. Nürnberg Airport is approximately 15 kilometers away. The site contains approximately 26 acres. Parking facilities provide for 601 parking spaces on the lot and 140 parking spaces in the underground car park. The property contains approximately 2,606,704 square feet of leaseable space and is a multipurpose complex that serves as the centre for logistics and distribution: storage space, office space, shop space and an administrative/computing centre.

Homco Realty Fund (69) LP, Philippstrasse 3, Bochum, Germany

Leased to Veba Immobilie AG the property is located in Bochum-Altenbochum and is close to several highway connections including BAB 40 and 43. The complex offers easy access by both car and public transportation. The site contains approximately 5 acres. The building provides total leaseable space of 285,461 square feet and has 250 parking spaces. It is a well maintained office complex fitted out to a high standard.

Homco Realty Fund (70) LP, Elbestrasse 1-3, Marl, Germany

Located in the industrial section of Marl-West, the property is close to highway connections A43-A2 and contains land area of approximately 7.5 acres. The building provides 161,178 square feet leaseable. It is a well maintained property consisting of office and warehouse/distribution space, fitted out to good and functional standards.

Homco Realty Fund (70) LP, Binnerheide 26, Schwerte, Germany

The property is centrally located in an industrial area of Binnerheide Schwerte and is well connected to the German motorway system. The site contains approximately 10 acres. The building provides a leaseable area of 54,524 square feet and is a well maintained mixed use property consisting of office and storage space.

Homco Realty Fund (70) LP, Industriestrasse 19, Hassmersheim, Germany

The property is centrally located in an industrial area of Hassmersheim and is well connected to the German motorway system and to the river Neckar. The property contains approximately 18 acres. The building contains a total leaseable area of 315,300 square feet and is a well maintained mixed use property consisting of office and storage space.

Homco Realty Fund (70) LP, Wolfraamweg 2, Wolvega, Netherlands

Leased to Motip Dupli Group B.V. the property is centrally located in an industrial area of Wolvega and is well connected to the Dutch Highway system. The building provides gross leaseable area of

191,936 square feet consisting of warehouse and office space.

Homco Realty Fund (71) LP, Meidoornkade 22-24, Houten, Netherlands

Leased to Eurecto NV. the property is conveniently located in the Doornkade Business Park, Houten, close to the A27 Expressway and offers easy access by both car and public transportation. The building provides 193,978 square feet leaseable and is a discerningly designed and equipped complex consisting of office, showroom and exhibition areas.

Homco Realty Fund (72) LP, Industriestraat 6, 8, & 10, Numansdorp, Netherlands

The complex is conveniently located in the industrial area of Middelsluis Zuid and is close to the A29 Expressway. The complex offers access by both car and public transportation. The building provides 92,517 square feet of leaseable space and is a well maintained complex consisting of office, showroom and storage areas.

Homco Realty Fund (73) LP, Fortranweg 10, Amersfoort, Netherlands

The property is located in the modern office/industrial area of De Hoef on the junction of the Fortranweg and Basicweg. The complex is well connected to private and public transport and the main highway connections A1 and A28. The site contains approximately 3 acres. The building provides total leaseable space of 100,514 square feet and is a well maintained and equipped free-standing mixed use property consisting of production/storage/distribution and office space.

Homco Realty Fund (74) LP, Industrielaan 24, Uden, Netherlands

Leased to EMI Compact the property is located in an industrial area of the village of Uden which is approximately 40 kilometers from Eindhoven. Access to the nearest motorway is via 2 secondary roads, a distance of about 5 kilometers. Constructed in 1977 the complex consists of 4 mixed use production, storage, assembly and office buildings providing a total leaseable area of 437, 285 square feet.

Homco Realty Fund (76) LP, Daalackersweg 2, 2a, 8, Eindhoven, Netherlands

Leased to VDC Industriez Module B.V. the property is conveniently located in the east section of Eindhoven in the industrial area known as Herzenbroek. Close to the A2/A50 main highways it has easy access by car and public transit. The buildings provide a total leaseable area of 364,921 square feet and the site contains parking for 500 automobiles. The properties are a well maintained complex consisting of office and storage areas.

Homco Realty Fund (77) LP, 846 Park Street, Kentville, NS, Canada

A 14,700 square foot newly constructed and occupied in the Spring of 2005 by an automotive dealership.

Homco Realty Fund (81) LP, Centre LaMarche, 155-25<sup>th</sup> Avenue, Saint-Eustache, QC, Canada

7,406 square foot commercial retail center constructed in 1990 on 28,717 square feet of land providing parking for 35 vehicles.

Homco Realty Fund (83) LP, 135-137 Pownal Street, Charlottetown, PEI, Canada

Land acquired for the construction of 45 unit condominium apartment.

Homco Realty Fund (84) LP, Stationsplein, 7 and 9, Groningen, Netherlands

Land area of 128,253 square feet improved with two office buildings completed in 1990. The buildings

contain a gross area of 343,550 square feet and 248,924 square feet leaseable.

Homco Realty Fund (85) LP, Mathildelaan 1, Eindhoven, Netherlands

Land area of 380,270 square feet improved with six buildings completed between 1974-76. The buildings contain gross area of 523,162 square feet and 426,900 square feet leaseable.

Homco Realty Fund (86) LP, Benthemstraat 10, Rotterdam, Netherlands

A 104,636 square foot building constructed in 1969 with 75,670 square feet leaseable. Renovations were carried out in 1999 and 2002.

Homco Realty Fund (87) LP, Energieweg 9, Rotterdam, Netherlands

A two storey fitness center built in 2002-2003 with gross area of 35,306 square feet.

Homco Realty Fund (88) LP, 1215-1239 11<sup>th</sup> Avenue SW, Calgary, AB, Canada

1.04 acres of land acquired for the construction of Homburg Kai Mortensen Towers a twin tower (25 story) 466 residential complex with 525 underground parking stalls.

Homco Realty Fund (89) LP, 4041-6<sup>th</sup> Street SW, Calgary, AB, Canada

19.25 acres of land acquired for redevelopment. The project will consist of 7 luxury suburban low rise office buildings totaling approximately 415,000 square feet leaseable and parking for 1,400 vehicles.

Homco Realty Fund (91) LP

Nine Pizza Hut locations located in Granby, Bromont, and Sherbrooke, Québec, Canada, plus Kingston, Belville, Lindsay and Trenton, Ontario, Canada. Total building area is 39,913 square feet.

Homco Realty Fund (92) LP, Industrieweg 6-8 & 9, Nijverheidsweg 12, 14-14a, 18-18a, 'T Harde, Netherlands

Land area of approximately 298,400 square feet with 8 buildings totaling 147,000 square feet leaseable. The main building, 103,000 square feet is primarily factory, office and secure storage.

Homco Realty Fund (94) LP, Homburg Springs West, NW ¼ Section 10, Township 26, Range 1, Calgary, AB, Canada

140 acres of land held for development in the north Calgary annexation zone.

Homco Realty Fund (95) LP, Western Financial Place, Highway 2, High River, AB, Canada

A newly constructed 30,000 square foot office building occupied by the Western Financial Group as its head office.

Homco Realty Fund (96) LP, Points North, Calgary, AB, Canada

184 acres of land held for development in North Calgary.

Homco Realty Fund (98) LP, Carat Park, Teucheler Weg/Feldstrasse, Lutherstadt Wittenberg, Germany

A retail shopping center constructed in 1994 with a major reconstruction in 2002. The property has 17 retail tenants occupying 198,592 square feet.

Homco Realty Fund (102) LP, Hardwareweg 11, Amersfoort, Netherlands

An office warehouse building with 52,948 square feet leaseable situated on 114,600 square feet of land.

Homco Realty Fund (103) LP

Four Harvey's restaurant locations in Rosemère, St. Eustache, Montréal and Kirkland, Québec, Canada containing a total of 12,264 square feet.

Homco Realty Fund (105) LP, Homburg Holland Towers, Calgary, AB, Canada

29,000 square foot development site in Calgary, Alberta, Canada.

Homco Realty Fund (106) LP, 1075-1095 Wilfred Hamel Blvd., Québec City, QC, Canada

Located west of downtown Québec City the 122,362 square foot site is improved with two contiguous buildings with a total of 10,083 square feet leased to Harvey's and Scores Rotisseries restaurants.

Homco Realty Fund (110) LP, AM Campeon, 1-12 Neubiberg, Germany (Munich)

Six low-rise buildings containing approximately 1,600,000 square feet and underground parking for 1,980 cars. Occupied by a single tenant – Infineon Technologies AG.

Homco Realty Fund (111) LP - Tarasconweg 2, Eindhoven, Netherlands

Two storey office complex used as a data center providing 84,615 square feet situated on a site containing approximately 126,000 square feet. There is on site parking for 100 vehicles.

Homco Realty Fund (112) LP – Valkstraat 14, Sittard, Netherlands

Built in the mid 1990's the property consists of a two storey brick office structure providing 27,560 square feet situated on approximately 50,600 square feet of land.

Homco Realty Fund (113) LP - Corkstraat 38-46, Sheffieldstraat 21-39, Stuttgartstraat 30-34, Rotterdam, Netherlands

Constructed about 1990 the property contains a total of approximately 150,932 square feet of office space. The site of approximately 152,900 square feet provides parking for 133 vehicles.

Homco Realty Fund (114) LP – Beelarts van Bloklandstraat 10-14, Tilburg, Netherlands

Single tenant office warehouse building providing 237,615 square feet of space situated on approximately 360,000 square feet of land.

Homco Realty Fund (140) LP

Berri, Saint-Hubert, Saint-Antoine Street, Montréal, QC, Canada

A joint venture project in Old Montreal resulting in a total investment of \$300 million. The project will include office, retail, residential and hotel components.

333 Sherbrooke Street East, Montréal, QC, Canada

9 storey condominium and 4 multiplexes totaling 113 residential units plus Phase II to be constructed consisting of an additional 112 units.

Homburg Holdings (US) Inc., 555 East Pikes Peak Avenue, Colorado Springs, Colorado, USA

Situated on 2.3 acres, the structure was built in 1917 by the Santa Fe R.R. Company. Converted in 1981 to general office use, it contains net leaseable area of 37,251 square feet.

Homburg Holdings (US) Inc., 557 East Pikes Peak Avenue, Colorado Springs, Colorado, USA

The site contains 1.31 acres and is improved with a single-storey frame/brick office building containing 27,000 square feet. The building was constructed in 1980.

Homburg Holdings (US) Inc., 559 East Pikes Peak Avenue, Colorado Springs, Colorado, USA

The site contains 1.64 acres and is improved with a three-storey medical/office building constructed in 1980. Construction is wood frame/brick veneer and the building has gross area of 30,137 square feet. Paved parking, in common with 555 & 557 (above), is provided for 525 cars.

Homburg Holdings (US) Inc., 4575 Hilton Parkway, Colorado Springs, Colorado, USA

The property has a land area of 28,319 square feet and is improved with a two-storey wood framed/cedar siding general office building. Constructed in 1979 the building contains 9,998 square feet and on-site parking is provided.

Homburg Holdings (US) Inc., 3535 Van Teylingen Drive, Colorado Springs, Colorado, USA

The subject property consists of a two-storey office building containing 11,040 square feet of gross area. Each suite is accessed from an exterior entrance (from a balcony on the second level). The site contains 10,335 square feet and has 29 on-site parking spaces.

Homburg Holdings (US) Inc., 669 Airport Freeway, Hurst, Texas, USA

The subject site contains 3.328 acres and is improved with a four-storey 53,265 square foot structure built in 1982. The building is of steel frame with stucco exterior. The interior is serviced by two elevators.

Homburg Holdings (US) Inc., 15510 Lexington Boulevard, Sugarland, Texas, USA

The subject property comprises 1.69 acres and is improved with a retail plaza totalling 17,825 square feet. Built in 1985, it is of masonry construction on a concrete slab and is currently subdivided for eleven tenants.

Homburg Holdings (US) Inc., 3740 Colony Drive, San Antonio, Texas, USA

The land comprises 1.3315 acres and is improved with a circa 1966 two-storey masonry/flat roofed office building of 23,606 square foot leaseable.

Homburg Holdings (US) Inc., 8400 Blanco Road, San Antonio, Texas, USA

The subject site contains 1.2494 acres and is improved with three detached office buildings – two, one storey and one, one and a half storey providing a total of 14,986 square feet. Construction is concrete slab, stucco exterior walls and pitched metal roofs. All three were built in 1985.

Homburg Holdings (US) Inc., 10800 and 10829 Hillpoint Drive, San Antonio, Texas, USA

The subject consists of two non-contiguous parcels of land.

10800 Hillpoint contains 28,501 square feet and is improved with a 12,166 square foot, one-storey office warehouse building.

10829 Hillpoint contains 38,215 square feet and is also improved with a one-storey office warehouse building.

Both are slab on grade with tilt-up concrete and corrugated steel walls with flat built-up tar and gravel roofs. Construction was in 1982.

Homburg Holdings (US) Inc., 4718 and 4738 Cotton Belt Drive, San Antonio, Texas, USA

4718 Cotton Belt contains 20,586 square feet and is improved with a one-storey office warehouse building containing 9,371 square feet.

4738 Cotton Belt contains 37,788 square feet and is also improved with a one-storey office warehouse. Both were constructed in 1983 and are slab-on-grade, concrete tilt-up walls with flat built-up roofing.

Homburg Holdings (US) Inc., 6112 McCart Avenue, Fort Worth, Texas, USA

The subject site contains 1.04 acres and provides on-site parking for 55 automobiles. The building is a steel frame/brick veneer structure containing 16,927 square feet serviced by one elevator. It was built circa 1980.

The following summarizes the properties owned directly by HII:

535 Yates Street, Victoria, BC, Canada

Located in “Old Town” Victoria in a mixed-use, office/retail district, this building contains 19,397 square feet of leaseable area.

Cariboo Building, 1801-73 First Avenue, Prince George, BC, Canada

Located between the central business district and the rail yards/industrial sector, this property contains 5.51 acres and 78,819 square feet leaseable in 6 buildings.

## **ENVIRONMENTAL MATTERS**

As owner and manager of real property, HII is subject to various U.S., Dutch, German and Canadian federal, provincial, state and municipal laws relating to environmental matters. Under these laws, HII could be held liable for the costs, which may be significant, of, or removal and remediation of, certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect HII’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 HII. HII is currently not aware of any material non-compliance with environmental laws at any of its properties. HII is also currently not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatened claims relating to environmental conditions at its properties.

HII has adopted an environmental management program, including policies and procedures to review and monitor environmental matters associated with its properties. HII’s environmental policy includes a requirement to obtain a Phase I environmental assessment and, if appropriate, a Phase II assessment conducted by an independent and experienced environmental consultant before acquiring a property.

HII currently intends to make the necessary capital and operating expenditures to ensure compliance with environmental laws and regulations. Although there can be no assurances, HII does not currently believe that costs relating to environmental matters, if any, would have a material adverse effect on HII’s business, financial condition or results of operation. However, 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 operations.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **Basis of Financial Statement Presentation**

HII prepares its financial statements under International Financial Reporting Standards (“IFRS”) as HII has major European shareholders who normally receive financial statements prepared under IFRS. As HII is a Canadian resident Corporation it is also required to prepare a separate set of financial statements under Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The most significant differences between the IFRS and Canadian GAAP statements are that while the IFRS statements reflect the fixed assets at fair market value and are without depreciation charges, the Canadian GAAP financial statements record the fixed assets at historical cost less accumulated depreciation. In addition, deferred charges related to leasing fees have been recorded as an asset in the Canadian GAAP financial statements and will be charged to expense over the period of the related lease. These charges are written off in the year of incurrence under IFRS.

### **International Financial Reporting Standards (000’s) (Except per share amounts)**

	<b>Year Ended December 31 2006</b>	<b>Year Ended December 31 2005 As Restated</b>	<b>Year Ended December 31 2004</b>	<b>Year Ended December 31 2003</b>	<b>Year Ended December 31 2002 As Restated</b>
Property Revenue	\$ 116,742	\$ 56,743	\$ 37,414	\$ 30,854	\$ 18,200
Unrealized Valuation Changes	\$ 76,225	\$ 50,387	\$ 22,951	\$ 7,121	\$ 2,031
Total Revenue	\$ 253,094	\$ 112,906	\$ 60,590	\$ 40,251	\$ 20,346
Net earnings	\$ 94,766	\$ 54,863	\$ 22,994	\$ 9,360	\$ 3,834
Funds from operations	\$ 28,877	\$ 12,478	\$ 5,591	\$ 4,834	\$ 3,685
Earnings per share basic	\$ 0.92	\$ 0.73	\$ 0.46	\$ 0.22	\$ 0.11
Funds from operations per share basic	\$ 0.28	\$ 0.17	\$ 0.11	\$ 0.11	\$ 0.10
Total assets	\$2,437,221	\$1,079,660	\$ 388,027	\$ 279,224	\$ 164,405
Total liabilities	\$1,933,217	\$ 820,192	\$ 284,368	\$ 209,174	\$ 116,431
Long-term debt	\$1,599,780	\$ 678,951	\$ 253,742	\$ 179,087	\$ 90,506
Demand loans payable	\$ 25,077	\$ 13,969	Nil	\$ 6,378	\$ 15,367
Deferred income taxes	\$ 104,480	\$ 62,911	\$ 23,266	\$ 16,898	\$ 7,040
Other liabilities	\$ 203,880	\$ 64,361	\$ 7,360	\$ 6,811	\$ 3,518
Shareholders’ Equity	\$ 504,004	\$ 259,468	\$ 103,659	\$ 70,050	\$ 47,974

## Quarterly Comparative

### International Financial Reporting Standards (000's) (Except per share amounts)

	December 31 2006	September 30 2006	June 30 2006	March 31 2006 As Restated
Revenue	\$ 72,249	\$ 44,903	\$ 30,460	\$ 29,257
Unrealized Valuation Changes	\$ 56,593	\$ 17,964	\$ 75	\$ 1,593
Total Revenue	\$ 128,842	\$ 62,867	\$ 30,535	\$ 30,850
Net earnings	\$ 52,198	\$ 23,778	\$ 6,731	\$ 12,059
Funds from operations	\$ 8,390	\$ 7,112	\$ 8,289	\$ 5,086
Net earnings per share basic	\$ 0.44	\$ 0.21	\$ 0.07	\$ 0.14
Funds from operations per share basic	\$ 0.07	\$ 0.06	\$ 0.09	\$ 0.06

### MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS

Refer to "Management's Discussion and Analysis and Financial Statements" prepared under both Canadian Generally Accepted Accounting Principles and International Accounting Standards which form part of the Annual Report of HII for additional financial information.

### MANAGEMENT OF HII

The name, municipality of residence, position held with HII and principal occupation of each of the officers and directors are set forth below. As at December 31, 2006, the directors and senior officers of HII as a group beneficially own, directly or indirectly, or exercise control or direction over 32,197,353 Class A Shares and 23,960,798 Class B Shares representing 47.60% of the total issued and outstanding Class A Shares and Class B Shares and 73.44% voting control of HII. The directors are elected and the officers appointed for a term ending after the next annual meeting of shareholders.

Name and Municipality	Current Position with Corporation Date Elected	Present Occupations & Position held during last 5 years	Voting Shares	
			Class A	Class B
Richard Homburg <sup>(1)</sup> Amsterdam, the Netherlands	Chairman and Chief Executive Officer October 23, 2000	Chairman of the Board of Directors of Homburg Uni-Corp Incorporated a private holding company.	31,489,337	23,761,556
Michael H. Arnold, CA <sup>(2)</sup> Charlottetown, PEI	Director April 26, 2002 Vice Chairman October 28, 2005	President of Dyne Holdings Limited a real estate management company.	42,800	38,184
Rudolf D. Bakhuizen <sup>(3)(7)</sup> Baarn, the Netherlands	Director October 23, 2000	Chief Executive Officer, Huis en Haard Beheer B.V. (private holding company, Amsterdam)	176,624	25,000
Dr. Trevor A. Carmichael <sup>(4)</sup> Bridgetown, Barbados	Director June 18, 2004	Principal, Chancery Chambers, Barristers & Solicitors, Barbados	-	-
Walter R. Fitzgerald <sup>(5)</sup> Halifax, NS	Director June 18, 2004	Retired Mayor, City of Halifax 1994 - 1996 Previously MLA and Cabinet Minister, Province of Nova Scotia	-	-

Name and Municipality	Current Position with Corporation Date Elected	Present Occupations & Position held during last 5 years	Voting Shares	
			Class A	Class B
Edward P. Ovsenny <sup>(6)</sup> Toronto, ON	Director April 26, 2002	Principal, Ovsenny Advisors International real estate consultants; and prior thereto, Vice President, Mortgage Investment of Canada Life Insurance Company	78,556	25,703
J. Richard Stolle Amsterdam, the Netherlands	President and Chief Operating Officer October 1, 2006	2002-2005 Chief Operating Officer Uni-Invest N.V. 2005 Chief Operating Officer Stollburgh B.V.	202,866	-
Ashley L. Phillips Calgary, AB	President Canadian Operations October 1, 2006	Vice President Operations Homburg Canada Incorporated	85,609	38,780
James F. Miles, CA Halifax, NS	Vice President Finance and Chief Financial Officer October 1, 2006	Vice President Finance and Administration, Homburg Canada Incorporated; and Assistant Secretary, Homburg LP Management Incorporated	90,262	40,277
J. Jeffery Coates Bedford, NS	Secretary January 22, 2004	Vice President, Homburg Canada Incorporated	31,299	31,298

(1) *Mr. Homburg serves as Chairman of the Executive Committee.*

(2) *Mr. Arnold serves on the Audit Committee.*

(3) *Mr. Bakhuizen serves on the Executive Committee.*

(4) *Mr. Carmichael serves on the Executive Committee.*

(5) *Mr. Fitzgerald, serves on the Audit Committee.*

(6) *Mr. Ovsenny serves as Chairman of the Audit Committee.*

(7) *Mr. Bakhuizen has an indirect ownership of 4,044,008 Class A and 3,067,304 Class B shares included in the shares listed under Richard Homburg.*

## Committees of the Board of Directors

### *Executive Committee:*

Mr. Richard Homburg, Chairman

Mr. Rudolf D. Bakhuizen

Dr. Trevor A. Carmichael

### *Audit Committee:*

Mr. Edward P. Ovsenny, Chairman

Mr. Michael H. Arnold, CA

Mr. Walter R. Fitzgerald

Mr. Ovsenny and Mr. Fitzgerald qualify as independent (as defined in Multilateral Instrument 52-110 – *Audit Committees*) members of the Audit Committee. Mr. Arnold, through a private company, provides management services to Homburg Invest at properties on Prince Edward Island and thus may not qualify as independent. All Audit Committee members are “financially literate” (as defined in Multilateral Instrument 52-110 – *Audit Committees*).

Mr. Ovsenny has an EMBA Degree from Queens University and enjoyed a 40-year career with one of Canada's major life insurance companies – Canada Life Insurance Company. He retired, after 40 years, as Vice President North America Mortgage Investment. He is currently a Director and member of the Audit Committee and Conduct Review Committee of Canada Life.

Mr. Arnold is a Chartered Accountant – McGill University and Quebec Institute of Chartered Accountants 1966. Mr. Arnold has been a Sessional Lecturer at Prince of Wales College and an Assistant Professor of Business Administration at University of Prince Edward Island. Over the years, he has owned and operated private companies including commercial real estate development, retail department stores, as well as businesses in the field of education and finance.

Walter Fitzgerald – BA, Bed, MA started his working life as a teacher. Mr. Fitzgerald became active in politics serving 1966-69 Alderman City of Halifax, 1971-74 Mayor City of Halifax, 1974-80 Member Legislative Assembly Province of NS, 1988-94 Alderman City of Halifax, 1993-94 Deputy Mayor, 1994-95 Mayor City of Halifax and 1995-2000 Mayor Halifax Regional Municipality. During these years Mr. Fitzgerald was involved in budgeting and planning for a growing and dynamic City and Province.

## AUDIT COMMITTEE

### Audit Committee Charter

<p>The Canadian Securities Administrators' (CSA) Multilateral Instrument 52-110 has defined specific requirements for Audit Committees to meet. One of these requirements is that the Company's Audit Committee will have a written charter that sets out its mandate and responsibilities. It also requires the text of the charter to be included in the annual information form along with other specified information on the Audit Committee members.</p>	
	<p><b>Purpose:</b></p>
52-110, 2.1  58-201	<p>The Homburg Invest Inc. (the "Company") Audit Committee (the "Committee") is ultimately responsible for the policies and practices relating to integrity of financial and regulatory reporting as well as internal controls to achieve the objectives of safeguarding of corporate assets; reliability of information; and compliance with policies and laws. The Committee will also be responsible for identifying principal risks of the business and ensuring appropriate risk management techniques are in place.</p> <p>The Committee charges management with developing and implementing procedures to:</p> <ul style="list-style-type: none"><li>● ensure internal controls are appropriately designed, implemented and monitored.</li><li>● ensure reporting and disclosure of required information is complete, accurate, and timely.</li></ul> <p>The Committee will make recommendations to the Board of Directors regarding items relating to financial and regulatory reporting and the system of internal controls following the execution of the Committee's responsibilities as described in the mandate.</p>

	<b>Composition of Committee:</b>
52-110, 3.1 (1, 2, 3) 52-110, 1.4	The Committee will be composed of 3 independent Directors, any 2 of whom comprise a quorum, from the Company's Board of Directors. Independence of the Board members will be as defined by applicable legislation and as a minimum each Committee member will have no direct or indirect relationship with the Company which, in the view of the Board of Directors, could reasonably interfere with the exercise of a member's independent judgment.
52-110, 3.1 (4) 52-110, 1.5 52-110, 3.8	All members of the Committee will be financially literate as defined by applicable legislation. If, upon appointment, a member to the Committee is not financially literate as required, the person will be provided a three month period in which to achieve the desired level of literacy.
52-110, 1.4 52-110, 3.6 (d)	If any member loses their independent status, they will be required to resign from the Committee within three months of becoming non-independent. The Nominating Committee of the Board will be required to replace the member within that three month time frame. If it is the Chair of the Committee that loses independent status, that person shall cease to be chair immediately and be replaced as chair by an existing member of the Committee with the Nominating Committee being asked to replace this member within the three month time frame.
	<b>Authority:</b>
52-110, 4.1 (a, b)	The Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties and the Committee will set the compensation for such advisors.
52-110, 4 (c) 52-110, 2.2	The Committee has the authority to communicate directly with and to meet with the external auditors without management involvement. This extends to requiring the external auditor to report directly to the Committee.
	<b>Responsibilities:</b>
52-110, 2.3 (2) (a)	1. The Committee will recommend to the Board of Directors:
(2) (b)	a. the external auditor to be nominated for purposes of preparing or issuing the auditor's report or performing other audit, review or attest services for the Company; and
	b. the compensation of the external auditor.
52-110, 2.3 (3)	2. The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing the Auditor's Report or performing other review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. The Committee

52-110, 2.3 (4) 52-110, 2.5	<p>will also ensure that the external auditor is in good standing with the Canadian Public Accountability Board and will enquire if there are any sanctions imposed by the CPAB on the external auditor. The Committee will also ensure that the external auditor meets the rotation requirements for partners and staff on the Company’s audit.</p> <p>3. The Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company’s external auditor. The Committee has delegated to the Chair of the Committee the authority to pre-approve non-audit services up to an amount of \$10,000.00 with such pre-approved services presented to the Committee at the next scheduled Committee meeting following such pre-approval.</p>
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**Pre-Approval Policies and Procedures**

The Audit Committee pre-approves, annually, the estimated audit, audit related and tax fees of the Company’s auditors. Other non-budgeted consulting/professional fees are approved in advance of such expenditures.

**EXTERNAL AUDITOR SERVICE FEES**

<b>Year</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>	<b>Other Fees</b>
2005	160,500	154,015	15,800	7,495
2006	220,850	136,465	2,750	52,000

**CONFLICTS OF INTEREST**

The directors and officers of HII may serve as directors, officers or consultants of other real estate companies or may have significant shareholdings in other public or private companies. Situations may arise in connection with potential acquisitions of properties or other investments where the other interests of directors or officers may conflict with the interests of HII. Other than as described below, there is currently no such conflict of interest.

HII does not directly employ its officers or others providing management services to HII. The officers of HII hold officer and management positions with Homburg Canada and other companies related to Homburg Canada as set forth under “Management of HII” herein. The operations of HII are managed in all respects by Homburg Canada and Homburg LP Management Incorporated, both of which are controlled by Richard Homburg (see “The Company – Organizational Structure” and “Interest of Management and Others in Material Transactions”).

## **DESCRIPTION OF SHARE CAPITAL**

### **Authorized and Issued Capital**

The authorized capital of the Company consists of (i) an unlimited number of Class A Shares; (ii) an unlimited number of Class B Shares; (iii) an unlimited number of Class A Preferred Shares issuable in series (the “Class A Preferred Shares”); and (iv) an unlimited number of Class B Preferred Shares issuable in series (the “Class B Preferred Shares” and, together with the Class A Preferred Shares, the “Preferred Shares”). As at December 31, 2006, there were 87,089,172 Class A Shares and 30,897,438 Class B Shares issued and outstanding.

The following is a summary of the material features of the Company’s authorized capital and is qualified in its entirety by reference to the full text of the rights, privileges, restrictions and conditions of such shares in the Company’s articles, available electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Class A Shares**

The Class A Shares are entitled to receive notice of, attend and vote at all meetings of shareholders, 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. The Class A Shares are entitled to receive dividends as and when declared by the Board of Directors, subject to the prior rights of holders of shares of any other class ranking senior and, unless otherwise provided by legislation, are entitled to one vote per Class A Share on all matters to be voted on at all meetings of shareholders. Upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of Class A Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities and prior rights of holders of Shares of any other class ranking senior to such class. Class A Shares are convertible into Class B Shares in certain limited circumstances involving offers made to all or substantially all the holders of Class B Shares.

### **Class B Shares**

The Class B Shares are entitled to receive notice of, attend and vote at all meetings of shareholders, 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. The Class B Shares are entitled to receive dividends as and when declared by the Board of Directors, subject to the prior rights of holders of shares of any other class ranking senior and, unless otherwise provided by legislation, are entitled to 25 votes per Class B Share on all matters to be voted on at all meetings of Shareholders. Upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of Class B Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities and prior rights of holders of Shares of any other class ranking senior to such class. Pursuant to the Company’s articles, the Company cannot issues new Class B Shares, other than in respect of the conversion rights of holders of Class A Shares, such Class B Shares having already been authorized and reserved for issuance.

## **Class A and B Preferred Shares**

The Preferred Shares are issuable 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. The Preferred Shares are non-voting and rank in priority to the Class A Shares and Class B Shares with respect to dividends and distribution upon dissolution. No Preferred Shares have been issued.

## **DIVIDENDS**

### **Dividends, Dividend Policy and Dividend Reinvestment Plan**

Dividends are payable on all Class A Shares and Class B Shares if, as and when declared by the Board of Directors. Any dividends thus declared will be declared contemporaneously and paid at the same time and in the same amount per share on all the Class A Shares and Class B Shares at the time outstanding, without preference or priority of one share over another.

The holders of the Class A Preferred Shares and the Class B Preferred Shares (subject to the preferences afforded to the Class A Preferred Shares over the Class B Preferred Shares) are entitled to the payment of dividends in priority to the holders of the Class A Shares, the Class B Shares and any other shares of the Company ranking junior to the Class A Preferred Shares or the Class B Preferred Shares from time to time to the payment of dividends. Such dividends are to be paid rateably with the other holders of Class A Preferred Shares or Class B Preferred Shares, as the case may be, provided that accumulated dividends, if any, are paid preferentially to the holders of such series as determined by the Board of Directors at the time the Preferred Shares are issued.

The amount of any dividend paid on the shares of the Company is at the discretion of the Board of Directors, subject to the provisions of the ABCA. Since September 2004, dividends have been and, subject to the approval of the Board of Directors, will be paid semi-annually on March 30 and September 30 for Class A Shares and Class B Shares. The record date for dividend payments has typically been fifteen calendar days before the dividend payment date. On February 14, 2006, the Board of Directors approved an increase in the annualized dividend to \$0.36 per share. The first semi-annual dividend of \$0.18 was paid on September 30, 2006 to Shareholders of record on September 15, 2006. The Company aims to make stable dividend payments going forward.

Shareholders may opt to participate in the Dividend Reinvestment Plan. The Dividend Reinvestment Plan enables shareholders to invest the cash dividends (less withholding tax, if any) paid on the Class A Shares and Class B Shares in additional Class A Shares. A participant in the Dividend Reinvestment Plan may elect to invest cash dividends paid on its shares with respect to all or 50% of its shares. Class A Shares bought under the Dividend Reinvestment Plan are acquired at 97% of market value (subject to Board of Directors approval). More detailed financial information is available in the Dividend Reinvestment Plan, available electronically on the website of the Company at [www.homburginvest.com](http://www.homburginvest.com).

## Dividends Paid

The table below sets forth the dividends paid during the last three financial years on the Class A Shares and on the Class B Shares.

Record Date	Dividend Amount	Payment Date
September 15, 2004	\$0.06	September 30, 2004
March 15, 2005	\$0.08	March 30, 2005
September 15, 2005	\$0.12	September 30, 2005
March 15, 2006	\$0.12	March 30, 2006
September 15, 2006	\$0.18	September 30, 2006

## MARKET FOR SECURITIES

The Class A Shares of HII are listed for trading on the TSX under the symbol HII.A and on the Eurolist by Euronext under the symbol HII. The Class B Shares of HII are listed for trading on the TSX under the symbol HII.B.

### Trading Price Range and Volume 2006

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#### Class A Shares TSX

Month	\$Hi-Lo	Vol	Month	\$Hi-Lo	Vol
Jan	3.95/3.55	254,410	July	5.25/4.60	12,770
Feb	4.65/3.95	118,136	Aug	5.34/4.45	22,977
Mar	6.25/3.95	324,955	Sept	5.05/4.80	308,168
April	7.40/4.81	632,789	Oct	6.50/4.90	64,027
May	6.20/5.00	633,604	Nov	6.20/5.60	161,161
June	6.24/5.05	37,919	Dec	6.25/5.60	27,565

#### Class A Shares Euronext

Month	EURO Hi-Lo	Vol	Month	EURO Hi-Lo	Vol
Jan	-	-	July	3.65/3.41	2,060,172
Feb	-	-	Aug	3.68/3.42	2,194,524
Mar	4.43/3.65	623,383	Sept	3.67/3.48	1,142,605
April	5.8/3.9	4,577,858	Oct	4.12/3.53	2,902,918
May	4.45/3.98	1,090,574	Nov	4.15/4.00	1,688,210
June	4.25/3.4	1,018,725	Dec	4.04/3.80	1,241,352

#### Class B Shares TSX

Month	\$Hi-Lo	Vol	Month	\$Hi-Lo	Vol
Jan	3.99/3.45	70,519	July	4.25/4.00	59,909
Feb	4.80/3.95	148,702	Aug	4.15/3.95	135,081
Mar	5.45/4.05	204,484	Sept	4.00/3.30	134,553
April	6.75/4.52	72,306	Oct	4.50/3.35	294,455
May	5.25/4.00	439,314	Nov	4.50/3.95	224,108
June	4.85/4.05	65,872	Dec	4.40/4.15	286,102

## Transfer Agent and Registrar

The Company's Transfer Agent and Registrar is CIBC Mellon Trust Company Toronto, Calgary and Halifax.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director or executive officer of HII or person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over more than 10% of any outstanding shares of HII, nor their associates or affiliates, has had any material interest, direct or indirect, in any transaction within the financial years ended December 31, 2006, 2005 and 2004, except as disclosed below.

The Company is directly and indirectly controlled by Richard Homburg, its Chairman and Chief Executive Officer. The agreements described below relating to the management of the assets and properties of the Company have been entered into by companies directly or indirectly controlled by Mr. Homburg.

Almost all of the real estate assets directly or indirectly owned by the Company are managed by Homburg Canada through Property Management Agreements and Asset Management Agreements.

In addition to the fees payable to Homburg Canada under the Property Management Agreements and the Asset Management Agreements, as detailed below, HII also pays to Homburg Canada and certain other related parties additional service fees. See below “Summary of Payments to Related Parties”.

### **Property Management Agreements**

As property manager, Homburg Canada provides general property management to the Company, the Partnerships and Homburg Holdings (U.S.) Inc. The initial terms of the Property Management Agreements are generally 10 years, with automatic renewal terms specific to each relevant agreement (being of one or five years). The owner of the relevant property may terminate its Property Management Agreement with just cause or in other cases by giving a six months prior notice and paying an amount equal to the property management fees paid over the previous two years. In certain cases, subsequent to the initial term expiry, the owner of the relevant property may terminate its Property Management Agreement prior to the expiration of its extended term by giving a six months prior notice and paying an amount equal to 20% of the average total monthly compensation under the Property Management Agreement multiplied by the number of months remaining in the extended term. Homburg Canada may terminate a Property Management Agreement by giving a 12 months prior notice to the owner of the relevant property.

Homburg Canada, in general, is entitled to the following fees for its property management services, payable either on a monthly or quarterly basis:

- for investment properties situated in Canada or the United States, fees ranging from 0% to 5% of all cash receipts (i.e. total basic rent plus expense recoveries);
- for investment properties situated in Europe, fees ranging from 0% to 3.5% of annual rents;

- in certain agreements construction fees equal to 10% of the total cost of construction or related construction contracts.
- in certain agreements, leasing fees equal to 10% of the first year net revenue for leases with a term of one to two years, 15% of the first year net revenue for leases of three years and 20% of the first year net revenue for leases of four years or longer.

With respect to investment properties where the triple net leases are in place, Homburg Canada does not charge any property management fees. Homburg Canada subcontracts the property management for European investment properties to Homburg Vastgoed Management B.V., a company directly and indirectly controlled by Richard Homburg, on the same terms as under the Property Management Agreements subject to an allocation of the fees described above between Homburg Canada and Homburg Vastgoed Management B.V. With respect to the Campeon property in Munich, the property is managed by a third party. Homburg Canada receives no property management fees with respect to that property.

### **Asset Management Agreements**

As asset manager, Homburg Canada provides strategic planning, marketing, financial reporting advisory, and acquisition and disposition services to the Company, the Partnerships and Homburg Holdings (U.S.) Inc. The initial terms of the Asset Management Agreements are generally 10 years, with automatic renewal terms specific to each relevant agreement as long as Homburg Canada is controlled directly or indirectly by Richard Homburg, with automatic renewal terms specific to each relevant agreement. The owner of the relevant property may terminate its Asset Management Agreement with just cause or in other cases by giving a six months prior notice and paying an amount equal to the asset management fees paid over the previous two years. In certain cases, subsequent to the initial term expiry, the owner of the relevant property may terminate its Asset Management Agreement prior to the expiration of its extended term by giving a six months prior notice and paying an amount equal to 20% of the average total monthly compensation under the Asset Management Agreement multiplied by the number of months remaining in the extended term. Homburg Canada may terminate an Asset Management Agreement by giving a 12 months prior notice to the owner of the relevant property.

Homburg Canada, in general, is entitled to the following fees for its asset management services, payable either on monthly or quarterly basis:

- for investment properties situated in Canada or the United States, annual fees of 0.75% calculated on an invested capital basis calculated on an average monthly asset base;
- for investment properties situated in Europe, annual fees of 0.20% calculated on an invested capital basis calculated on an average monthly asset base;
- share issue fees of 5% of the total gross proceeds raised in share issues of the Company; and
- acquisition and disposal fees of, in general, 2.5% of the total acquisition or disposition price of the relevant property.

Homburg Canada subcontracts the asset management for European investment properties to Homburg Vastgoed Management B.V., a company directly and indirectly controlled by Richard Homburg on the same terms as under the Assets Management Agreements, subject to an allocation of the fees described above between Homburg Canada and Homburg Vastgoed Management B.V. With respect to the Campeon property in Munich, the property is managed by a third party. Homburg Canada receives no asset management fees with respect to that property.

### **Limited Partnership Agreements**

The General Partner, a subsidiary of Homburg Canada, is the general partner in substantially all of the Partnerships in which Homburg is a Limited Partner. The Limited Partner(s) are solely entitled to the profits of the Partnership of which they are a Limited Partner. Except in respect of the Minority Partnerships, the General Partner is not entitled to any compensation. In respect of the Minority Partnerships (20), (21), (22), (26), (28), (29) and (140), the General Partner is entitled to 30% of the profits (before taxes) that remain after the holders of the limited partnership units have received a cumulative return of 11% (before taxes) on an annual basis. In respect of the Minority Partnership (49), the General Partner is entitled to 30% of the profits (before taxes) that remain after the holders of the limited partnership units have received a cumulative return on equity of 8% (before taxes) on an annual basis.

### **Issuance of Bonds**

In 2006, HII issued bond series 8 and series 9 for a total amount of approximately \$160 million. Homburg Participaties B.V. (“Homburg Participaties”), a company directly and indirectly controlled by Richard Homburg, acted as intermediary and, for the services rendered to the Company, received a fee of \$8,290,000 representing 4% of the gross proceeds of such issuance. Through ShareCo, the Company has issued six series of mortgage bonds. Homburg Participaties acted as intermediary and, for the services rendered to the Company, received a fee ranging from 4% to 5% of the gross proceeds for each of these issuances. In 2005, the Company paid a fee of \$3,704,000 to Homburg Participaties in respect of the issuance of the mortgage bonds series 6 and 7, which totalled approximately \$96 million, compared to a fee of \$2,629,000 paid in 2004 in respect of the issuance of the mortgage bonds series 4 and 5, totalling approximately \$62 million.

Furthermore, the Company entered into a guarantee arrangement with Uni-Insurance Inc., a company directly and indirectly controlled by Mr. Homburg, for the principal amounts of each of the mortgage bonds to maturity, pursuant to which the Company is protected against fluctuations in the Canadian dollar and the euro, to a maximum limit equal to the principal value of each mortgage bond. The cost of this guarantee fee per annum until maturity is 1.5% on the bonds series 1, 2.0% on the bonds series 2 and 1.6% on the bonds series 4, series 5, series 6 and series 7.

### **Insurance**

Homburg Insurance Company Limited, a company directly and indirectly controlled by Mr. Richard Homburg, acts as the Company’s broker for certain insurance. The total fees paid to Homburg Insurance Company Limited, including the cost of the premium paid through Homburg Insurance Company Limited, amounted to \$700,000 in 2006, compared to \$796,000 in 2005.

## **Acquisition of Properties**

In December 2006, the Company concluded an agreement with certain parties in the Netherlands whereby the Company acquired four commercial properties located in the Netherlands for an aggregate purchase price of Euro 37,600,000 (approximately \$53,974,800) plus costs.

The four properties, which include Tarasconweg 2, Franse Baan 606 in Eindhoven, Valkstraat 14 in Stittard, Corkstraat 38-46/Sheffield 21-39/Suttgartstraat 30-44 in Rotterdam and Beelaarts van Bloklandstraat 10-14/Reitse Hoewvenstraat 233-241 in Tilburg (collectively, the "Properties"), were purchased through the Partnerships and for which Homburg L.P. Management Inc. acts as General Partner.

Of the total purchase price, approximately Euro 7,870,685 (approximately \$11,221,003) was paid in cash, Euro 28,500,000 (approximately \$40,595,400) was used for the assumption of existing debt and approximately Euro 4,500,000 (approximately \$6,409,800) was paid through the issuance of 1,000,000 Class A Shares at a deemed price of Euro 4.50 (\$6.38) per share.

This was considered a related party transaction as the Properties are being purchased from Stollburgh B.V. ("Stollburgh") and SUV B.V. Stollburgh is owned by Richard Homburg, a controlling shareholder and Chairman and Chief Executive Officer of the Company, and Mr. Richard Stolle, President and Chief Operating Officer of the Company. Stollburgh owns the Tilburg property and SUV B.V. owns the Sittard, Rotterdam and Eindhoven properties. Stollburgh and Fortress Participaties B.V. ("Fortress") each own 50% of SUV B.V. In the aggregate Stollburgh owns a 31% interest and SUV B.V. a 69% interest in the Properties which will result in 310,000 and 690,000 Class A Shares being issued to Stollburgh and SUV B.V., respectively.

In view of the related party nature of the acquisition, the Board of Directors formed an independent committee comprised of two independent directors to consider the acquisition and to determine whether the consideration to be paid by the Company was fair and whether the acquisition was in the best interest of the Company. The Board of Directors received the report and recommendations of the independent committee and unanimously voted in favour of the acquisition.

## **Other Related Party Transactions**

The management of the Confederation Court Complex in Charlottetown, Prince Edward Island, is subcontracted by Homburg Canada to a company owned by Michael H. Arnold, the Vice Chairman of the Company. The total fees paid to this company amounted to \$314,000 in 2006 and \$254,000 in 2005.

Further, since March 1, 2006, Stollburgh Capital B.V., a company controlled by Richard Homburg and J. Richard Stolle, President and Chief Operating Officer of HII, occasionally performs asset management services as subcontractor of Homburg Canada.

The fees payable to the above subcontractors are paid by Homburg Canada and do not affect the determination of the fees payable by the company to HII pursuant to the Property Management Agreements and Asset Management Agreements.

### Summary of payments to related parties

Set forth below is a table summarizing the various revenues and expenses between related parties in respect of the financial years ended December 31, 2006 and 2005:

(all amounts in thousands)	Year ended December 31	
	2006	2005
Rental revenue earned	(723) <sup>(1)</sup>	(246) <sup>(1)</sup>
Asset and construction management fees incurred	<b>7,634</b>	6,360
Property management fees incurred	1,925	1,833
Insurance fees incurred	<b>700</b>	796
Service fees incurred <sup>(2)</sup>	519	438
Property acquisition/disposal fees incurred	25,802	16,939
Mortgage bond guarantee fees incurred	3,701	3,571
Bond and other debt issue costs incurred	8,290	3,704
Share issue costs incurred	3,536	<b>NIL</b>
Construction financing interest and fees incurred	334	<b>492</b>

Notes: (1) This number corresponds to rents paid by Homburg Canada to HII.

(2) The service fees of \$519,000 incurred in 2006 relate to operating costs such as fuel, advertising, repairs and wages. A portion of these service fees are paid to a company owned by Michael H. Arnold, Vice Chairman of the Company. Such fees amounted to \$314,000 for the year ended December 31, 2006 and \$254,000 for the year ended December 31, 2005. The remainder of these service fees were paid to Homburg Canada.

The total amount paid to related parties for services rendered amounted to \$52.4 million for the year ended December 31, 2006 and \$34.1 million for the year ended December 31, 2005.

### RISK FACTORS

*Investors should carefully consider the following risk factors before investing in shares of the Company. If any of the following risks actually occur, the Company's business, results of operations or financial condition could be materially adversely affected. In that event, the value of the shares of the Company could decline and investors may lose part or all of their investment. Although the Company believes that the risk factors described below are its most material risks, they are not the only ones that the Company faces. Additional risk factors not presently known to the Company or that it currently deems immaterial may also have a material adverse effect on its business, results of operations or financial condition and could negatively affect the price of the shares of the Company.*

#### Real Property Ownership

All real property investments are subject to a degree of risk. Such investments are affected by general economic conditions, such as availability of long-term mortgage funds, local real estate

markets, supply and demand for leased premises, competition from other available premises and various other factors. The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants.

### **Concentration of Tenants**

In the financial year ended December 31, 2006, the Company derived approximately 40.3% of its annual property revenues from its top two tenants, 52% from its top five tenants and 63.5% from its top 10 tenants. The Company's revenues are sensitive to the ability of the Company's key tenants to meet their rent obligations and the Company's ability to collect rent from these tenants. If for any reason the Company was unable to collect rents from these key tenants, the Company's revenues could be materially adversely affected.

The Company's income would be adversely affected if a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in its properties were not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. In certain cases, tenants also have the right to terminate the leases prior to the expiration of their term, upon certain conditions. The terms of any subsequent lease may be less favourable to the Company than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as a lessor may be experienced and substantial costs in protecting the Company's investment may be incurred. Furthermore, at any time, a tenant of any of the Company's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the Company. Costs may be incurred in making improvements or repairs required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the financial condition of the Company.

### **Competition**

The real estate markets in Canada, the Netherlands, Germany and the United States are highly competitive and fragmented and the Company competes for real property acquisitions with individuals, corporations, institutions (Canadian and foreign) and other entities which are seeking or may seek real property investments similar to those desired by the Company. An increase in the availability of investment funds and an increase in interest in immovable property investments may increase competition for immovable property investments, thereby increasing purchase prices and reducing the yield on them.

Numerous other developers, managers and owners of properties compete with the Company in seeking tenants. Some of the properties owned by the Company's competitors are better located or less leveraged than the properties owned by the Company. Some of the Company's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on the ability of the Company to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the revenues of the Company and its ability to meet its debt obligations.

## **Fixed Costs**

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing any income. A high level of fixed costs implies a high degree of operating leverage. See “Financing Risks and Leverage”.

## **Financing Risks and Leverage**

The Company is subject to the risks associated with debt financing, including the risk that the Company’s cash flows will be insufficient to meet required payments of principal and interest, the risk that existing mortgages will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

If the Company is unable to refinance its indebtedness on acceptable terms, or at all, it might be forced to dispose of one or more of its properties on disadvantageous terms, which might result in losses. Such losses could have a material adverse effect on the Company’s business, financial condition, results of operations or cash flows.

Furthermore, if a property is mortgaged to secure the payment of indebtedness and the Company is unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all of which could result in lost revenues and asset value to the Company.

The degree to which the Company is leveraged could have important consequences to shareholders, including: (i) the Company’s ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the Company’s cash flow may be dedicated to the payment of the principal of, and interest on, its indebtedness, thereby reducing the amount of funds available for the payment of dividends to Shareholders; and (iii) certain of the Company’s borrowings are at variable rates of interest which exposes the Company to the risk of increased interest rates. The Company’s ability to make scheduled payments of the principal of, or interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the financial performance of properties in the Company’s portfolio, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the Company’s control.

## **Liquidity of Real Property Investments**

Real property investments are relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the ability of the Company to vary its portfolio promptly in response to changing economic or investment conditions. If the Company was to be required to liquidate its real property investments, the proceeds might be significantly less than the aggregate carrying value of such properties.

## **General Uninsured Losses**

The Company carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars, terrorism or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. The Company has insurance for earthquake risks, subject to certain policy limits, deductibles and self insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but the Company would continue to be obliged to repay any recourse mortgage indebtedness on such properties.

## **Access to Capital**

The real estate industry is very capital intensive. Homburg will require access to capital to maintain its properties and to fund its growth strategy. There is no assurance that capital will be available when needed or on favourable terms.

## **Interest Rate Exposure**

The assets and liabilities of the Company have fixed and floating interest rate components resulting in an exposure to interest rate fluctuations. These fluctuations in interest rates will have an impact on the earnings of the Company. As a result of increased interest rates, the Company's financial results and condition or operating results could be materially adversely affected.

## **Currency Exposure**

The Company conducts its business in multiple currencies, principally the Canadian dollar, euro and the U.S. dollar. A significant amount of the Company's revenues are currently generated in euros. This may change over time as the Company continues to expand its operations, including for example the acquisition of Alexis Nihon which generates all of its revenues in Canadian dollars. The principal currency exchange risk of the Company arises from the fact that the financial records of Canadian operations are maintained in Canadian dollars, U.S. revenues are in U.S. dollars and European revenues are in euros. Upon preparing consolidated financial statements, the Company's Canadian dollar-denominated consolidated reported financial results can be affected by changes in the relative value of the U.S. dollar and the euro against the Canadian dollar. Fluctuations in currency values also distort period-to-period comparisons of financial performance. Given the high volatility of currency exchange rates, there can be no assurance that Company will be able to effectively manage its currency risk to minimise the impact on its business. Exposure to currency exchange risk could have a material adverse effect on Company's business, financial condition, results of operations or cash flows.

The Company mitigates a portion of its currency risk on mortgage bond debt denominated in euros through a currency guarantee agreement with Uni-Insurance Inc. Currency risk for other amounts denominated in U.S. dollars and euros is substantially mitigated by U.S. dollar and euro revenue flows from property rentals.

## **Environmental Matters**

As owner and manager of real property, the Company is subject to various U.S., Dutch, German and Canadian federal, provincial, state and municipal laws relating to environmental matters. Under these laws, the Company could be held liable for the costs, which may be significant, of, or removal and remediation of, certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The 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. 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 operations.

## **Jointly Owned Property**

The Company jointly owns certain properties. In making such joint ownership investments, there is a risk that the Company may incur a loss if a co-owner is unable to fulfil its obligations.

## **MATERIAL CONTRACTS**

The only material contracts entered into by HII during the most recently completed financial year, or before the most recently completed financial year and which are still in effect, other than in the ordinary course of business, are as follows:

- (a) the Support Agreement referred to under "Recent Developments – Acquisition of Alexis Nihon"; and
- (b) Cominar Asset Sale Agreement referred to under "Recent Developments – Acquisition of Alexis Nihon".

A copy of each of the foregoing agreements is or will be available electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

## **EXPERTS**

Grant Thornton LLP is the independent auditor of the Company and accordingly has signed the auditors' report on the Company's annual financial statements for the year ended December 31, 2006.

## ADDITIONAL INFORMATION

Additional information relating to HII may be found through the Internet or SEDAR at [www.sedar.com](http://www.sedar.com). Further additional information, including directors' and officers' remuneration and indebtedness, principal holders of HII's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in HII's information circular for its most recent annual meeting of shareholders that involved the appointment of directors.

**Note:** Copies of this Annual Information Form and the company's Annual and Quarterly Reports (including Financial Statements and Management's Discussion and Analysis) and the company's Management Information Circular may be obtained by contacting:

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Halifax, NS B3J 3X8

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