

**International
Accounting Standards**

Homburg Invest Inc.



Management Discussion and Analysis & Financial Statements

December 31, 2001

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December 31, 2001 and 2000

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

The following should be read in conjunction with the consolidated financial statement prepared under **International Accounting Standards (International GAAP)** and the notes attached thereto.

Overview

Homburg Invest Inc. ("Homburg Invest" or the "Company") is a public real estate company owning 31 properties containing 1.54 million square feet of gross leaseable space with a fair value of \$112.3 million as at December 31, 2001 in four main asset classes: office, retail, industrial, and multi-family residential.

Properties Owned

2001	Property Type	No. of Properties	Fair Value	No. of Units	Square Footage
	Office	16	\$ 60,555,834		729,444
	Retail	4	29,651,475		334,138
	Residential	7	11,253,275	253	280,080
	Industrial	3	8,353,522		198,419
	Land	1	2,500,000		* 24,000
TOTAL		31	\$ 112,314,106	253	1,542,081
2000	Property Type	No. of Properties	Fair Value	No. of Units	Square Footage
	Office	14	\$ 49,013,500		635,902
	Retail	3	27,000,000		310,304
	Residential	7	10,263,500	253	280,080
	Industrial	3	8,572,827		198,419
	Land	1	2,500,000		* 24,000
TOTAL		28	\$ 97,349,827	253	1,424,705

*Total square footage excludes vacant land of 24,000 square feet.

Results from Operations

Cash flow from operations was \$3.3 million in 2001 or \$.09 per share compared to a cash flow of \$3.2 million in 2000 or \$.10 per share; this represents an increase of \$.1 million. The cash flow results primarily reflect the stability of the real estate operations and the ability of the Company to manage its cash flow in its marketplace.

Net earnings in 2001 was \$3.5 million or \$.10 per share compared to net earnings of \$2.5 million or \$.08 per share in 2000. The 40% increase in net earnings is primarily from changes to property valuation increases based on updated independent appraisals carried out during the year.

Office Portfolio

Homburg Invest's office portfolio consists of 16 small to medium sized office buildings in Atlantic Canada, Alberta, and British Columbia with a total rentable area of 729,000 square feet. The Company's 16 office buildings generated \$8.0 million total revenue in 2001 and \$5.0 million in net operating income. This compares to \$7.1 million total revenue in 2000 and \$4.7 million in net operating income. \$.5 million of this increase in revenue is attributable to the July 2001 acquisition of the 38% interest in an office building in Halifax and the October 2001 purchase of a commercial property in Calgary. The balance of the office portfolio operations in 2001 contributed a growth of \$.4 million over 2000 and included the first full year of the Victoria office building acquired in October 2000.

Overall occupancy in the office portfolio was 98% at December 31, 2001.

Retail Portfolio

Homburg Invest's retail portfolio consists of the Confederation Court Mall in Charlottetown, PEI and two neighbourhood retail centres in Alberta. Retail rental revenue increased to \$4.9 million in 2001 from \$4.8 million in 2000; while net operating income remained constant at \$2.1 million in 2001. The three retail centres continue to provide a stable revenue stream and net operating result for the Company. In 2002 the Company will receive a full year's revenue stream on the retail property acquired in Edmonton late in 2001.

Overall occupancy in the retail portfolio was 99% at December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Residential Portfolio

Homburg Invest's residential portfolio is located in Nova Scotia and consists of seven properties and 253 units as at December 31, 2001. Rental revenue from the residential portfolio increased to \$1.8 million in 2001 from \$1.7 million in 2000 and net operating income increased to \$1.0 million in 2001 from \$.9 million in 2000. Operating results in the residential portfolio improved during the year largely through increases in rental rates in its market.

The residential portfolio maintained a high overall average occupancy rate during 2001 and at December 31, 2001 the occupancy rate was 99%.

Industrial Portfolio

Homburg Invest's industrial portfolio consists of three industrial buildings located in New Brunswick and British Columbia with a total net rentable area of 200,000 square feet. The Company's industrial buildings generated \$1.2 million total rental revenue in 2001 and \$.8 million in net operating income compared to \$.7 million total rental revenue in 2000 and \$.6 million in net operating income. The Company has been successful in leasing up space at market rates and the result in 2001 have reflected the leasing efforts.

Overall occupancy in the industrial portfolio was 95% at December 31, 2001.

Unrealized Valuation Changes

As a result of four independent appraisals completed in 2001, the unrealized valuation increase recorded was \$1.6 million. The appraisal policy of the company is to have new independent appraisals completed on a rotating basis every three years.

Other Income

During 2001, Homburg Invest generated \$.1 million in other income compared to \$.2 million in 2000. The income generated came from investing surplus funds in short term investment instruments.

Interest Expense

Interest expense was \$4.2 million in 2001; an increase of \$.3 million over 2000. This increase is directly attributable to first mortgage financing used for property acquisitions during the current and previous year. The Company's weighted average interest rate on real estate asset debt decreased from 7.46% in 2000 to 7.43% in 2001. For the year ended December 31, 2001 Homburg Invest had total interest coverage of 1.87 to 1 and a debt to equity ratio of 1.49 to 1.

General and Administration

General and administration expenses totalled \$1.1 million for each of 2001 and 2000. These costs were as budgeted.

Financial Condition

Assets

Total assets grew from \$100.9 million at December 31, 2000 to \$117.0 million at December 31, 2001. The table below summarizes Homburg Invest's asset base.

	2001 (Millions)	2000 (Millions)
Cash and cash equivalents	\$ 1.7	\$ 1.9
Receivables	1.5	1.0
Deposits	1.2	.4
Other assets	.3	.3
Property	112.3	97.3
	<u>\$ 117.0</u>	<u>\$ 100.9</u>

Receivables

Receivables consist of \$.8 million in amounts due from tenants which arise from the normal course of operations and \$.7 million due from the sale of an interest in a limited partnership as described in note 6 to the financial statements. The \$.7 million receivable was collected subsequent to year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Deposits

The deposit account is for the acquisition of 21.7% of the stock of the Cedar Income Fund, Ltd., a Real Estate Investment Trust listed on the NASDAQ. As reported on note 7 to the financial statements, this transaction was approved and completed subsequent to year end.

Other Assets

Other assets are made up primarily of prepaid expenses for property taxes and portfolio investments.

Capital Structure

The table below summarizes Homburg Invest's capital structure.

	2001 (Millions)		2000 (Millions)	
Mortgages payable	\$ 61.6	55.8%	\$ 55.2	58.1%
Acquisition Demand Loan	4.4	4.0%	-	-
	66.0	59.8%	55.2	58.1%
Shareholders equity	44.3	40.2%	39.8	41.9%
	\$ 110.3		\$ 95.0	

Debt on Real Estate Assets

Mortgages payable on revenue producing properties increased by \$6.4 million in 2001 from \$55.2 million to \$61.6 million. The increase is a result of financing \$8.1 million through conventional first mortgages for the two Alberta properties acquired in October 2001, the 38% interest in the Halifax office tower in July 2001, as well as financing the Burke Building in Charlottetown which was acquired late in 2000. These borrowings were offset by on-going principal repayments in the amount of \$1.8 million. The Company's fixed rate debt represented 93% of the total debt at year end 2001. The weighted average interest rate on the Company's real estate debt decreased from 7.46% in 2000 to 7.43% as at December 31, 2001.

The \$5.0 million acquisition line of credit was used to the extent of \$4.4 million as at December 31, 2001 and is at a floating rate of prime + 1%. This line is used to acquire capital assets.

Shareholders Equity

Homburg Invest's shareholders equity prepared under International GAAP increased from \$39.8 million at December 31, 2000 to \$44.3 million at December 31, 2001. In October 2001 Homburg Invest purchased the two Alberta properties. As part of the consideration the vendor took back 813,009 shares at \$1.23/share for a total issue amount of \$1.0 million. As part of the Company's efforts to acquire Boston Development Corporation, 22,872 shares of the Company's shares were issued to Boston shareholders at \$1.26 per share as consideration for their tendering shares of Boston. Retained earnings increased in 2001 as a result of net income of \$3.5 million.

Liquidity and Capital Commitments

In the normal course of its business, Homburg Invest has capital requirements for the principal component of mortgage payments, tenant improvements, and capital expenditures. Homburg Invest funds these requirements with cash flow from operations and the acquisition line of credit; although in some cases capital expenditures and leasing costs are funded by the underlying mortgage or separate term debt. Tenant inducements and capital expenditures totalled \$4.9 million in 2001.

For the year ended December 31, 2001 cash flow from operations was \$3.2 million. Homburg Invest believes that cash flow from operations will be sufficient to fund near-term, nondiscretionary costs.

Risk Management

Homburg Invest faces a number of operating risks in the normal course of its business. These risks, along with the Company's strategies to reduce their potential impact, are summarized below.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Real Estate Industry

Homburg Invest faces risks typically associated with the real estate industry as a whole. Factors such as general and local economic conditions; competition with other owners and developers; and changes in consumer spending and general employment have an impact on the supply and demand for commercial and multi-family residential product. Also, the Company's commercial portfolio is subject to more specific risks such as the ability to lease vacant space, lease renewals, tenant failures, the ability to secure favourable net rents, and the reliance on anchor tenants. Homburg Invest manages these risks through:

Due Diligence - A formalized acquisition process prior to entering into contract commitments and a formalized lease review process prior to accepting new tenancies.

Geographic and Asset Class Diversification - Homburg Invest's portfolio is located in major centers in Atlantic Canada, Alberta and British Columbia and operates in four main asset classes: office, retail, industrial, and multi-family residential.

Portfolio Management - Maintenance of a significant percentage of Homburg Invest's portfolio in more stable, lower risk multi-family residential, office, industrial and retail properties.

Interest Rate Risk

The assets and liabilities of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company has minimized its interest rate risk through a liability management policy. The Company allocates the maturity of its debt over a period of approximately 15 years.

Credit Risk

The Company's principal assets are commercial and residential buildings. Credit risk arises from the possibility that tenants may not fulfill their lease obligations. The Company mitigates this credit risk by attracting AAA tenants including financial institutions, major Canadian corporations, and governmental agencies and ensuring that its tenant mix is diversified.

Outlook

The year 2001 was the first full year for Homburg Invest as a publicly listed company on the Toronto Stock Exchange. The Company's focus has been to seek out new property acquisitions in our marketplace and to move forward with negotiations for stock swaps with other publicly listed companies. The Company currently is undertaking a number of initiatives in these areas which it hopes to successfully complete in 2002.

The shareholders of the Company at the April 26, 2002 Annual General and Special Meeting of Shareholders will be asked to amend the Common Share conditions so as to allow the Company to redeem up to 2% of the outstanding shares annually at full fair market value.

The Company's business plan and strategic focus is to grow the Company to \$1 billion in assets within five years before the implementation of a dividend policy. In a move to improve the liquidity of the Homburg Invest shares on the market and to allow shareholders to receive full value for their shares, Homburg Invest will be buying its shares back on the basis of full intrinsic value of these shares rather than basing the redemption price on current trading values. Our review of a cross-section of publicly listed real estate companies indicates that buy-back programs are undertaken in an attempt to increase liquidity at a price directly related to the current trading price. In all cases which we reviewed, the trading price upon which the bid was calculated was 50% to 75% of the indicated fair market value of the issuer's assets. Homburg Invest believes that its shareholders should receive full value for their shares in the Company. The fair market value will be determined annually from the year end audited financial statements of the Company prepared under International Accounting Standards (IAS) which permits the assets of the Company to be reflected at fair market value based on current qualified independent real estate appraisals. Homburg Invest is the only North American public company which currently is listed with the International Accounting Standards Board as having fully complied with the preparation of their financial statements using IAS. The intrinsic value of the Company's shares as at December 31, 2001 was \$1.26 per share. As the IAS financial statements are prepared annually, the quarterly intrinsic value will be adjusted to reflect the earnings achieved in each quarter of the next year.

We have a strong entrepreneurial management team with the willingness and ability to adapt to changes in the real estate market environment. Homburg Invest Inc. is well positioned to take advantage of the opportunities in the Canadian and the Eastern US marketplace.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

Halifax, February 8th, 2002

The accompanying consolidated financial statements of Homburg Invest Inc. were prepared by management who is responsible for the integrity and fairness of the information presented, including the amounts that must, of necessity, be based on estimates and judgements. These consolidated financial statements were prepared in accordance with International Accounting Standards. Financial information appearing throughout this Annual Report is consistent with these consolidated financial statements. Management has also prepared consolidated financial statements for Homburg Invest Inc. in accordance with Canadian Generally Accepted Accounting Principles, and these consolidated financial statements have also been provided to shareholders.

Management recognizes the importance of the Corporation maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements fairly presenting the financial condition of the Corporation. In this regard, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Audit Committee, composed entirely of outside directors, reviews consolidated financial statements with both management and independent auditors before such statements are approved by the Board of Directors and submitted to the shareholders of the Corporation.

Grant Thornton, LLP, the independent auditors appointed by the shareholders of the Corporation have examined the consolidated financial statements of the Corporation in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and findings as to the integrity of the Corporation's accounting and financial reporting and the adequacy of the system of internal controls.



Richard Homburg
Chairman of the Board, President
and Chief Executive Officer



Ira D. MacInnis, CA
Vice President Finance
and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Homburg Invest Inc.

We have audited the consolidated balance sheets of Homburg Invest Inc. as at December 31, 2001 and 2000, and the consolidated statements of earnings, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000, and the results of its operations, changes in equity and cash flows for the years then ended in accordance with International generally accepted accounting principles.

We also reported separately on January 28, 2002 to the shareholders of the Company on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the December 31, 2001 and 2000, consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles.

Halifax, Canada
January 31, 2002



Chartered Accountants

CONSOLIDATED BALANCE SHEETS

December 31 (All figures in Canadian Dollars)

	2001	2000
Assets		
Cash and cash equivalents	\$ 1,700,901	\$ 1,945,222
Receivables (Note 6)	1,515,831	1,047,967
Prepays	231,534	244,796
Deposits (Note 7)	1,199,925	350,000
Portfolio Investments (Note 3)	97,791	
Property (Notes 3 and 5)	112,314,106	97,349,827
	<u>\$ 117,060,088</u>	<u>\$ 100,937,812</u>
Liabilities		
Accounts payable	\$ 992,160	\$ 1,170,802
Large corporation taxes payable	27,178	84,006
Security deposits and prepaid rents (Note 10)	565,375	504,662
Payable to a shareholder company, non-interest bearing		383,754
Acquisition demand loan (Note 9)	4,399,358	
Mortgages payable (Note 8)	61,551,143	55,245,637
	<u>67,535,214</u>	<u>57,388,861</u>
Future income taxes	5,211,680	3,781,710
Shareholders' equity		
Capital stock (Note 11)	34,265,813	33,236,994
Retained earnings	10,047,381	6,530,247
	<u>44,313,194</u>	<u>39,767,241</u>
	<u>\$ 117,060,088</u>	<u>\$ 100,937,812</u>

Subsequent event (Note 7)

Commitments (Note 16)

Contingent liability (Note 17)

On behalf of the Board



Richard Homburg
Director



Lawrence Freeman
Director

See accompanying notes to these financial statements prepared under International Accounting Standards

CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended December 31 (All figures in Canadian Dollars)

	2001	2000
Property revenue	\$ 15,881,210	\$ 14,378,479
Interest income	43,174	108,334
Realized gain on sale of portfolio investments	50,245	90,778
Unrealized valuation changes	1,647,236	30,000
	17,621,865	14,607,591
Property operating expenses	7,123,265	6,031,383
General and administrative	1,134,143	1,130,689
	8,257,408	7,162,072
Earnings before interest and income taxes	9,364,457	7,445,519
Other expenses		
Interest	4,201,462	3,878,800
Earnings before income taxes	5,162,995	3,566,719
Income taxes (Note 12)	1,645,861	1,051,256
Net earnings	\$ 3,517,134	\$ 2,515,463
Earnings per share (Note 15)		
Basic	\$ 0.10	\$ 0.08
Fully diluted	\$ 0.10	\$ 0.07

See accompanying notes to these financial statements prepared under International Accounting Standards

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Years Ended December 31, 2001 and 2000 (All figures in Canadian Dollars)

	Share Capital	Revaluation Surplus	Retained Earnings	Total
Balance, December 31, 1999	\$ 31,194,426	\$ 3,794,723	\$ 220,061	\$ 35,209,210
Transfer of revaluation surplus		(3,794,723)	3,794,723	
Net earnings for the period			2,515,463	2,515,463
Issue of share capital (Note 11)	2,042,568			2,042,568
Balance, December 31, 2000	33,236,994	NIL	6,530,247	39,767,241
Net earnings for the period			3,517,134	3,517,134
Issue of share capital (Note 11)	1,028,819			1,028,819
Balance, December 31, 2001	\$ 34,265,813	\$ NIL	\$ 10,047,381	\$ 44,313,194

See accompanying notes to these financial statements prepared under International Accounting Standards

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (All figures in Canadian Dollars)

	2001	2000
Increase (decrease) in cash and cash equivalents		
Net earnings	\$ 3,517,134	\$ 2,515,463
Gain on sale of portfolio investments	(50,245)	(90,778)
Unrealized valuation changes	(1,647,236)	(30,000)
Future income taxes	1,429,970	774,492
Cash flow from operations	3,249,623	3,169,177
Change in non-cash operating working capital		
Receivables	(467,864)	99,833
Prepays	13,262	12,560
Large corporation taxes payable	(56,828)	(84,132)
Accounts payable	(178,642)	(737,950)
Security deposits	60,713	(28,404)
Payable to shareholder company	(383,754)	(721,724)
Net cash from operating activities	2,236,510	1,709,360
Investing		
Investment in property and equipment	(4,831,284)	(1,301,751)
Purchase of portfolio investments	(747,791)	(500,000)
Proceeds on sale of portfolio investments	700,245	590,778
Net cash used in investing activities	(4,878,830)	(1,210,973)
Financing		
Increase in acquisition demand loan	4,399,358	
Increase in deposits	(849,925)	(350,000)
Net decrease in mortgages payable	(1,809,934)	(1,434,982)
Increase in mortgages payable from new debt	658,500	400,000
Net cash from (used in) financing activities	2,397,999	(1,384,982)
Decrease in cash and cash equivalents	(244,321)	(886,595)
Cash and cash equivalents, beginning of year	1,945,222	2,831,817
Cash and cash equivalents, end of year	\$ 1,700,901	\$ 1,945,222
Cash flow per share from operations (Note 15)		
Basic	\$ 0.09	\$ 0.10
Fully diluted	\$ 0.09	\$ 0.09

Supplemental cash flow information (Note 18)

See accompanying notes to these financial statements prepared under International Accounting Standards

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

1. Basis of financial statement presentation

These financial statements are presented under the name Homburg Invest Inc., which is the new name of the company effective January 12, 2001. The company was named Basic Realty Investment Corporation ("Basic") prior to October 23, 2000. At October 23, 2000, it changed its name to Uni-Invest Ltd.

On October 23, 2000, Basic Realty Investment Corporation acquired 100% of the outstanding common shares of Uni-Invest Canada Ltd. in exchange for 32,584,051 common shares of Basic. Upon completion of the transaction, the former shareholders of Uni-Invest Canada Ltd. controlled approximately 94.58% of the outstanding common stock of Basic, resulting in a change of control of Basic. As a result, the transaction has been accounted for in accordance with the provisions applicable to a reverse takeover with Uni-Invest Canada Ltd. reported as the acquirer for accounting purposes. Uni-Invest Canada Ltd. changed its name to Homburg Invest Canada Limited on January 12, 2001.

These financial statements have been prepared under International Accounting Standards ("International GAAP") as the company has major European shareholders who normally receive financial statements prepared under International GAAP. As the company 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 International GAAP and Canadian GAAP statements, are that while the International GAAP 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 and financing costs 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 or debt to maturity. These charges are written off in the year of incurrence under International GAAP.

2. Nature of operations

Homburg Invest Inc., is listed on the Toronto Stock Exchange under the symbol "HII".

The company and its subsidiaries hold commercial and residential real estate interests located in Nova Scotia, New Brunswick, Prince Edward Island, Alberta and British Columbia, Canada.

3. Summary of significant accounting policies

The Company's accounting and reporting policies conform to International Accounting Standards. These standards are summarized as follows:

Property

The company has adopted application of IAS-40-Investment Property, and has chosen the Fair Value Model method of presenting its investment properties in the financial statements. The fair value of property is based on valuations by independent appraisers plus any capital additions since the date of the most recent appraisal.

Income taxes

The company follows the tax liability method for determining income taxes. Under this method, future tax assets and liabilities are determined according to differences between their respective carrying amounts and tax basis. Future tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in earnings as they occur.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

3. Summary of significant accounting policies (con't)

Earnings per share and cost flow from operations per share

In 2001, the Company adopted the new Canadian Institute of Chartered Accountants Standard #3500 - Earnings Per Share (CICA #3500). The standard requires the disclosure of the calculation of basic and diluted earnings per share, and the use of the treasury stock method for calculating the dilutive impact of stock options. There was no impact in adopting this change on basic earnings per share and basic cash flow from operations per share for either 2001 or 2000. However, diluted earnings per share and diluted cash flow from operations per share have reduced by \$.01 per share for 2000. (see Note 15)

Stock options

The company has a stock option plan which is described in Note 11. No compensation expense is recognized when options are granted. The consideration paid on exercise of options will be credited to capital stock.

Consolidation

These consolidated financial statements include the accounts of the company's wholly owned subsidiaries Homburg Invest Canada Limited, which is a Canadian company incorporated in the Province of Nova Scotia, GF Developments Inc. and MC Development Corporation, which are Canadian companies incorporated in the Province of Alberta.

Use of estimates

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Revenue is recognized when services are provided under the terms of the various leases and ultimate collection is reasonably assured. Property revenue includes recoveries of operating expenses. The company records any unrealized valuation changes as income (loss) in the year of appraisals.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and highly liquid temporary money market instruments with original maturities of three months or less and includes funds held in trust for tenants. Bank borrowings are considered to be financing activities.

Portfolio investments

Portfolio investments are carried at cost. Market value approximates cost at December 31, 2001.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

4. Reverse takeover

The reverse takeover transaction entered into on October 23, 2000 between Uni-Invest Canada Ltd. and Basic, as described in Note 1, has been recorded using the purchase method with Uni-Invest Canada Ltd. as the acquirer. Details of the assets acquired and liabilities assumed on the transaction are as follows:

Assets acquired	
Property and equipment	\$ 4,632,398
Cash	28,517
Other assets	242,919
	4,903,834
Liabilities acquired	
Long term debt	2,707,504
Other liabilities	143,000
	2,850,504
Net assets acquired at fair market value	\$ 2,053,330

The net assets acquired of \$2,053,330, pertain to the increased value of the property and equipment over the net book value at the time of the acquisition.

5. Property

	2001	2000
Balance, beginning of year	\$ 97,349,827	\$ 91,287,000
Additions:		
Acquisition through purchases plus capitalized costs on acquisition	12,629,865	
Acquisition through reverse takeover (Note 4) plus capitalized costs on acquisition		4,731,076
Capitalized costs of properties	687,178	1,301,751
Gain on fair value adjustment	1,647,236	30,000
Balance, end of year	\$ 112,314,106	\$ 97,349,827

In 2001 capital assets were acquired at an aggregate cost of \$13,317,044. The \$13,317,044 in transactions were financed by new debt of \$658,500, the assumption of debt totalling \$7,435,926, the issue of common shares totalling \$1,000,000 and cash of \$4,222,618.

In 2000 capital assets were acquired at an aggregate cost of \$6,032,827. The acquisitions were financed by new debt totalling \$400,000, the assumption of debt totalling \$2,707,504, the issue of common shares totalling \$2,042,568 and cash of \$882,755.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

6. Receivables

Included in receivables is \$700,245, of which \$350,122 is from a director. This receivable related to the sale of units in a limited partnership in which the company held a 16.67% interest. The sale was based on fair market values, and the company realized a gain of \$50,245 in the transaction.

7. Deposits and subsequent event

In the current year the company made a deposit of \$1,199,925 (\$750,000 USD) on 150,000 common shares of the Cedar Income Fund, Ltd. ("Cedar") a Real Estate Investment Trust listed on the NASDAQ. These shares represent approximately 21.7% of the outstanding shares of stock of Cedar. The transaction was approved by the Board of Cedar on February 1, 2002 and was completed on that date.

The deposits outstanding as at December 31, 2000 were returned to the company during 2001 when the acquisitions to which the deposits related did not close.

8. Mortgages payable

Fixed rate mortgages, various maturities from 2002 to 2013, weighted average interest rate of 7.43% as at December 31, 2001 (2000 - 7.46%).

As security for those mortgages, the Company has pledged all of its property, and an assignment of rents receivable.

Principal installments are payable as follows:

	2001	2000
	\$ 61,551,143	\$ 55,245,637
Principal installments are payable as follows:	2002	\$ 7,111,154
	2003	\$ 4,099,500
	2004	\$ 6,677,651
	2005	\$ 5,625,962
	2006	\$ 6,098,911
	Subsequent years	\$ 31,937,965

Included in the principal installments for the period 2002 to 2006 are normal maturities of mortgages totalling \$20,824,530, for which it is the company's intention to renew at market rates.

\$2,000,000 of second mortgages have a conversion right to acquire 2,089,095 common shares of the Company at \$.95735 per share at the option of the mortgage holder. At the date of issuance of these second mortgages, it was determined that the rate of interest applicable to the mortgages (average of 9%) was a rate applicable to a debt only instrument of comparable terms and risk. Therefore no portion of the debt has been assigned to equity.

9. Acquisition demand loan

The company has set up a \$5,000,000 line of credit to be utilized for acquisitions. The line bears interest at a Canadian chartered bank's prime rate plus 1%. At December 31, 2001, the effective rate paid by the company was 5%. The line is secured by second charges on specific assets in three partnerships in which a corporate subsidiary is the sole limited partner. The subsidiary has also guaranteed the obligation.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

10. Security deposits and prepaid rents

	2001	2000
Security deposits	\$ 75,463	\$ 71,490
Prepaid rents	489,912	433,172
	<u>\$ 565,375</u>	<u>\$ 504,662</u>

The security deposits are segregated in a trust account.

11. Capital stock

Authorized

- Unlimited number of common shares.
- Unlimited number of Class B voting shares.
- Unlimited number of Class A and B preferred shares,
issuable in series, with rights and privileges to be determined upon issue.

Issued	Number of Shares		Amount
	Common	Class B Voting	
Balance at October 31, 1999 (Basic's previous fiscal year end)	1,866,664		\$ 746
Issued to effect reverse takeover on October 23, 2000, net of costs of \$84,177	7,847,579	24,736,472	33,236,248
Balance December 31, 2000	9,714,243	24,736,472	33,236,994
Conversion of Class B voting shares to common shares on January 15, 2001	24,736,472	(24,736,472)	
Issued to effect purchase of shares in subsidiaries October 1, 2001	813,009		1,000,000
Issued to effect purchase of portfolio investments December 21, 2001	22,872		28,819
Balance at December 31, 2001	<u>35,286,596</u>	NIL	<u>\$ 34,265,813</u>

At October 31, 1999 Basic had 3,333,320 common shares, and 6,000,001 Class C preferred shares issued and outstanding. Prior to the reverse takeover, the 6,000,001 Class C preferred shares were converted to common shares on a share for share basis.

On October 23, 2000 the 9,333,321 common shares were consolidated five for one to yield 1,866,664 common shares to which a net value of \$2,042,568 was attributed to these common shares as a result of the reverse takeover.

On October 1, 2001, 813,009 common shares were issued at \$1.23 per share to an arms length party as partial consideration for the purchase of two subsidiary companies GF Developments Inc. and MC Development Corporation.

On December 21, 2001, 22,872 common shares were issued to shareholders of Boston Development Corporation ("Boston") at \$1.26 each as consideration for their tendering shares of Boston on the basis of 3.5 Boston shares for one Homburg Invest Inc. share.

The shares issued represented fair market value of the assets acquired through the share consideration.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

11. Capital stock (con't)

Stock options

There are outstanding options to purchase 1,220,811 (2000 - 627,811) common shares which have been issued to Directors and officers of the company, and employees of the management company. Set forth below is a summary of the outstanding options to purchase common shares as at December 31, 2001.

	2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	627,811	\$ 1.13	40,000	\$ 1.50
Granted – October 23, 2000			587,811	\$ 1.10
– June 13, 2001	575,000	\$ 0.90		
– October 16, 2001	150,000	\$ 0.95		
Exercised	NIL		NIL	
Expired	(132,000)	\$ (1.20)	NIL	
Outstanding at end of year	<u>1,220,811</u>	<u>\$ 0.99</u>	<u>627,811</u>	<u>\$ 1.13</u>
Options exercisable at year end	<u>1,220,811</u>		<u>603,811</u>	

Number of Shares Under Option	Date of Grant	Expiration Date	Exercise Price
8,000	October 21, 1999	Earlier of October 20, 2004 or 90 days following such person ceasing to be a director of the Company	\$ 1.50
487,811	October 23, 2000	October 22, 2005	\$ 1.10
575,000	June 13, 2001	June 13, 2006	\$ 0.90
<u>150,000</u>	October 16, 2001	October 15, 2006	\$ 0.95
<u>1,220,811</u>			

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

12. Income taxes

Income tax expense differs from the amounts which would be obtained by applying the combined Canadian basic federal and provincial income tax rate to earnings before income taxes. These differences result from the following items:

	2001	2000
Earnings before income taxes	\$ 5,162,995	\$ 3,566,719
Combined Canadian basic federal and provincial income tax rate	44.12 %	45.12 %
Less: reduction in rates based on enacted or substantively enacted tax laws at December 31, 2001	6.00 %	7.28 %
	<u>38.12 %</u>	<u>37.84 %</u>
Income taxes based on combined Canadian basic federal and provincial income tax rate	\$ 1,968,133	\$ 1,349,646
Increase (decrease) in income taxes resulting from:		
Large corporation tax	215,891	276,764
Adjustment to reflect reduced Canadian income tax rate on capital gains.	(538,163)	
Adjustment to reflect reduction in revaluation surplus future income tax rates based on enacted or substantively enacted tax laws at December 31, 2000.		(575,154)
	<u>\$ 1,645,861</u>	<u>\$ 1,051,256</u>
Income taxes:		
Large corporation taxes	\$ 215,891	\$ 276,764
Future income taxes	1,429,970	774,492
	<u>\$ 1,645,861</u>	<u>\$ 1,051,256</u>

Future income taxes represent temporary timing differences resulting from claiming income tax depreciation on the company's fixed assets. The accumulated future income tax liability at December 31, 2001 was \$5,211,680 (2000 – \$3,781,710).

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

13. Financial instruments and risk management

Financial instruments

The company does not acquire, hold or issue derivative financial instruments for trading purposes. Mortgages payable are the only long term financial instrument the company holds, and they have a fair value of \$69,557,000. (2000 - \$54,414,152).

The fair values of long term financial instruments are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the company might pay or receive in actual market transactions. Potential taxes and other transaction costs have also not been considered in estimating fair value.

The company's short-term financial instruments, comprising amounts receivable, cash and accounts payable and accrued liabilities, are carried at cost which, due to their short-term nature, approximates their fair value.

Risk management

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

A) Interest rate risk

The assets and liabilities of the company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The company has minimized its interest rate risk through a liability management policy. The company allocates the maturity of its debt over a period of approximately 15 years.

B) Credit risk

The company's principal assets are commercial and residential buildings. Credit risk arises from the possibility that tenants may not fulfill their lease obligations. The Company mitigates this credit risk by attracting tenants of sound financial standing and ensuring that its tenant mix is diversified.

14. Related party transactions

- A) The company has entered into agreements with a company commonly controlled by the Chairman and Chief Executive Officer to provide management services at market rates. These agreements are based upon asset management, property management and financial services. In 2001 the amount paid under these agreements was \$1,575,641 (2000 - \$1,115,211).
- B) During 2001, the company earned rental revenue in the amount of \$160,050 (2000 - \$260,311) from a company commonly controlled by the Chairman and Chief Executive Officer.
- C) The company has approved a resolution authorizing the property manager, a company commonly controlled by the Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the company.
- D) The company capitalizes property acquisition costs incurred at the time of purchase. In 2001, the total amount of these costs, paid to a company commonly controlled by the Chairman and Chief Executive Officer, amounted to \$284,050 (2000 - \$125,000)
- E) During 2001, the company sold part of an interest in a limited partnership to a director for \$350,122. (see Note 6)
- F) On October 9, 2001, the Company agreed to acquire from the Chairman and Chief Executive Officer and from companies controlled by him, 150,000 shares of Cedar Income Fund, Ltd., a Real Estate Investment Trust listed on the NASDAQ, at fair market value based on the average trading price for the previous 30 days. (see Note 7)

The above transactions were recorded at the exchange amount which is equivalent to fair market value.

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

15. Earnings per share and cash flow from operations per share

Per share amounts are based on a weighted average number of common shares issued and outstanding during the year. The weighted average number of common shares outstanding for the years ended December 31, 2001 and 2000 were 34,653,411 and 32,636,927 respectively. On a fully diluted basis, the weighted average number of common shares outstanding was 34,653,411 for 2001 and 34,726,022 for 2000.

The effect of potentially dilutive securities were not included in the calculation of diluted earnings per share in 2001 as the result would be anti-dilutive.

The dilutive effect of outstanding stock options on earnings per share is based on the application of treasury stock method. Under treasury stock method, the proceeds from the exercise of such securities are assumed to be used to purchase common shares.

The effect of potential dilutive securities on cash flow from operations per share is calculated on the same basis.

16. Commitments

A) The following is a schedule of the future minimum lease payments on several leases of a subsidiary company. The leases expire beginning May 2002.

2002	\$ 150,493
2003	\$ 129,513
2004	\$ 87,822
2005	\$ 86,702
2006	\$ 86,702

B) One of the wholly owned limited partnerships has entered into an agreement with the previous owners of the real estate to provide management services, annually for \$100,000. The agreement expires in 2009.

C) The company and its subsidiaries have entered into various property management agreements at market rates, expiring between 2010 and 2011. (See Note 14a)

17. Contingent liability

A subsidiary corporation has been named as a co-defendant in a claim made by a third party. Management believes that the liability, if any, is undeterminable at this time, and no provision has been made in the accounts for future possible losses. The previous owner has indemnified the subsidiary for any amounts that may be awarded in this claim.

18. Supplemental cash flow information

Cash and cash equivalents consists of balances in accounts maintained with chartered banks.

	2001	2000
Interest paid	\$ 4,564,874	\$ 4,683,490
Capital taxes paid	\$ 272,719	\$ 360,894
Interest received	\$ 43,174	\$ 108,334

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

19. Segmented information

The company owns a diverse portfolio of residential and mid-sized commercial income-producing properties located in Nova Scotia, New Brunswick, Prince Edward Island, Alberta, and British Columbia. The following provides a summary of key information of the company's residential and commercial operating segments:

	2001	2000
Property revenue		
Commercial	\$ 15,732,573	\$ 12,675,247
Residential	1,795,873	1,733,232
	<u>17,528,446</u>	<u>14,408,479</u>
Property operating expenses		
Commercial	6,312,978	5,254,310
Residential	810,287	777,073
	<u>7,123,265</u>	<u>6,031,383</u>
Income from rental operations net of property costs		
Commercial	9,419,595	7,420,937
Residential	985,586	956,159
	<u>10,405,181</u>	<u>8,377,096</u>
Other expenses net of other income - unallocated	1,040,724	931,577
Earnings before interest and income taxes,	<u>9,364,457</u>	<u>7,445,519</u>
Interest expense		
Commercial	3,778,394	3,453,122
Residential	423,068	425,678
	<u>4,201,462</u>	<u>3,878,800</u>
Earnings before income taxes	5,162,995	3,566,719
Income taxes	1,645,861	1,051,256
Net earnings	<u>\$ 3,517,134</u>	<u>\$ 2,515,463</u>
Carrying amount of property		
Commercial	\$ 101,553,106	\$ 87,005,330
Residential	10,761,000	10,344,497
	<u>\$ 112,314,106</u>	<u>\$ 97,349,827</u>
Mortgages payable		
Commercial	\$ 56,319,706	\$ 49,868,642
Residential	5,231,437	5,376,995
	<u>\$ 61,551,143</u>	<u>\$ 55,245,637</u>

NOTES TO INTERNATIONAL GAAP CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001 and 2000 (All figures in Canadian Dollars)

20. Staff costs

The company has no employees.

21. Comparative figures

Certain of the comparative figures have been reclassified to conform to the financial statement presentation of the current year.



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