

Homburg Invest Inc.



**Management's
Discussion
and Analysis
& Financial
Statements**

September 30, 2004

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Nine Months Ended September 30, 2004

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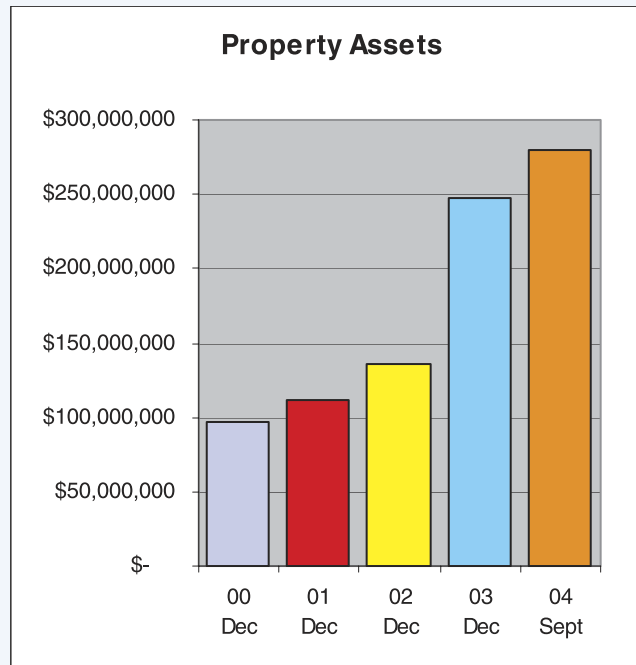


October 29, 2004

Dear Shareholder:

Enclosed herewith you will find a copy of your Company's third quarter financial statements prepared in accordance with **Canadian Generally Accepted Accounting Principles** and Management's Discussion and Analysis of Operations and Financial Condition for the nine months ended September 30, 2004. These items will also be available and may be downloaded from our website at www.homburginvest.com.

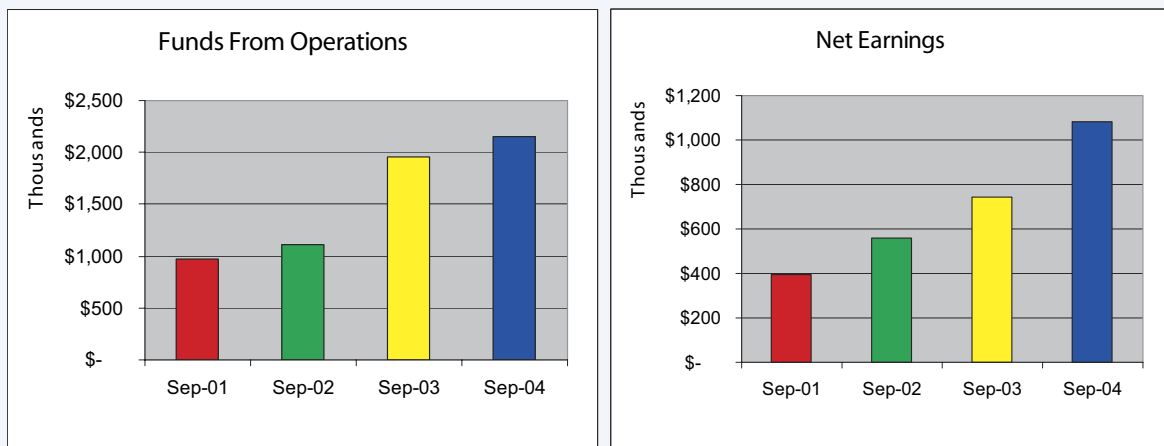
The growth in the Company's property assets continues to move forward. During the third quarter of 2004, the Company continued construction on the Vintage II Tower in Calgary, Alberta. The largest acquisition in quarter three was the Homburg Springs property in Calgary, Alberta. This project will involve the development and construction of 3,700 single and multi-family units and will ultimately have a developed value of approximately \$750 million over the next three to five years. The Company continues to evaluate opportunities to grow the asset base. We are currently in the due diligence phase for a large tract of land, also in Calgary, which will be developed as light industrial and which will involve construction of an additional \$275 million of assets over the next 5 years. Our growth since going public in 2000 is illustrated in the following bar chart which shows that our real estate assets have grown by 200%. It continues to be our objective to grow the property assets by an additional \$200 million in 2004. However, as previously stated, we will not complete transactions for the sake of growth alone. All acquisitions and development projects must be accretive over the long term to shareholder value.



HOMBURG Invest Inc.
11 Akerley Blvd. Suite 200,
P.O. Box 8896
Halifax, NS B3K 5M5
Tel (902) 468-3395 • Fax (902) 469-6776
www.homburginvest.com



The Company has always believed that in a public real estate company, the most relevant statistics on the income statement are the funds from operations. This fact takes on increased relevance in 2004 because the Canadian Institute of Chartered Accountants now requires, beginning January 1, 2004, that all public real estate companies that were previously using sinking fund depreciation as permitted under the Canadian Institute of Public Real Estate Companies handbook, an industry standard, must change to depreciation calculated under a straight line or declining balance methodology. In 2004, the Company prospectively changed to straight line depreciation in reporting its net earnings. The effect of this change in the third quarter has been to increase depreciation expense by \$268 thousand with the impact on net earnings after tax being reduced by \$168 thousand. Even with the change in the depreciation accounting policy, our net earnings in the third quarter of 2004 were \$1.1 million, up 45% from the \$746 thousand earned in the third quarter of 2003. Our funds from operations in quarter three are up \$205 thousand to \$2.2 million compared to 2003.



Please review the attached management discussion and analysis for a further description of the operating results.

As disclosed in the June quarter end letter to shareholders, the Company declared a \$.06 dividend to shareholders of record September 15, 2004 and payable on September 30, 2004. At the same time the Company introduced a Dividend Reinvestment Plan and I am happy to report that 85.34% of shareholders participated in the plan which resulted in the issue of 1,922,746 shares from treasury and an increase in equity of approximately \$2.8 million. Also during the quarter, 163,400 shares were issued from treasury as partial payment for a property acquisition and 8,333,332 shares were issued from treasury for cash and a total increase in equity of \$12.25 million. We are also aware that five Swiss banks acquired, for their private clients, a total of 3,472,222 shares of the Company in an arranged transaction through the facilities of the Toronto Stock Exchange. These transactions are important not only for the injection of new funds into the Company, but also the distribution of shares to new shareholders improves the liquidity position of the shares.

We are very excited about the future prospects for Homburg Invest Inc. and I trust you will find the enclosed information informative

Yours very truly,

“Signed”
Richard Homburg, Phzn.
Chairman and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Nine Months Ended September 30, 2004

The following should be read in conjunction with the consolidated interim financial statements prepared under **Canadian Generally Accepted Accounting Principles** and the notes attached thereto.

Date of MD&A

October 29, 2004

Overview

Homburg Invest Inc. ("Homburg Invest" or the "Company") is a public real estate company owning 87 properties with a net book value of \$279.6 million and 3.58 million square feet of space in four main asset classes: office, retail, industrial, and multi-family residential.

Properties Owned

Property Type	September 30, 2004				December 31, 2003			
	No. of Properties	Net Book Value	No. of Units	Gross Square Footage	No. of Properties	Net Book Value	No. of Units	Gross Square Footage
Office	30	\$103,220,101		1,118,906	33	\$101,935,015		1,180,703
Retail	35	108,210,060		1,472,388	23	89,371,327		1,325,079
Residential	11	13,027,796	352	367,023	11	14,443,470	352	367,023
Industrial	8	25,412,130		624,080	7	24,469,562		582,212
SUB-TOTAL	84	\$249,870,087	352	3,582,397	74	\$230,219,374	352	3,455,017
Properties Under Development*	1	22,271,351			1	17,424,052		
Land**	2	7,483,836		146 acres				
TOTAL	87	\$279,625,274	352	3,582,397	75	\$247,643,426	352	3,455,017

*Construction is nearing substantial completion on an eight-story, 124,000 square foot office building in Calgary, Alberta. Leasing activity has been very successful on this project and tenant occupancy will be taking place between November 1, 2004 and June 1, 2005.

**146 acres of land has been purchased in Calgary, Alberta for future multi-residential and single family development. Land has been purchased in Kentville, Nova Scotia and a 16,000 square foot car dealership is currently under construction. This building has been pre-leased.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Results from Operations

	3 Months Ended September 30 2004	3 Months Ended September 30 2003	9 Months Ended September 30 2004	9 Months Ended September 30 2003
	(Thousands)			
Funds from operations	\$2,159	\$1,954	\$5,318	\$4,678
Funds from operations per share - basic and diluted	\$.04	\$.04	\$.11	\$.11
Net Earnings	\$1,081	\$746	\$1,903	\$1,884
Earnings per share - basic and diluted	\$.02	\$.02	\$.04	\$.04

The funds from operations for the third quarter of 2004 was \$2.159 million or \$.04 per share compared to funds from operations of \$1.954 million in 2003 also \$.04 per share. The funds from operations for the nine months year-to-date in 2004 is \$5.318 million or \$.11 per share compared to \$4.678 million also \$.11 per share in 2003. The funds from operations for the third quarter of \$2.159 million are significantly improved over the funds generated of \$1.199 million in the second quarter of 2004. This was achieved by keeping a close watch on costs and not having to incur \$430 thousand in repairs and maintenance that were originally budgeted for the third and fourth quarters which management completed in the second quarter. The year-to-date funds from operations are consistent with our original budgets prepared by management and approved by the Board.

Effective January 1, 2004, there have been two significant changes in Generally Accepted Accounting Principles (GAAP) produced by the Canadian Institute of Chartered Accountants (CICA) that impacts the net earnings of Homburg Invest Inc. now and into the future.

1. Depreciation Policy – Section 1100 of the CICA Handbook now specifically omits the use of industry practice as a source of GAAP. For a real estate company this eliminates the use of sinking-fund depreciation which we had used up until December 31, 2003. Homburg Invest Inc. now utilizes straight-line depreciation to write-off its building assets over a period not exceeding 60 years. The impact of this change in 2004 has been to increase depreciation and amortization above our original budget by approximately \$260 thousand per quarter for a cumulative effect year-to-date of \$788 thousand.
2. Revenue Recognition Policy – Section 1100 in conjunction with 3065 of the CICA Handbook now requires that revenue on leased properties be recognized on a straight-line basis over the term of the lease. This means that all commercial leases with rental increases within the term of the lease must be adjusted to the straight-line basis. The impact of this new policy is an increase in rental income of \$136 thousand for each of the first two quarters of 2004 and \$187 thousand in quarter three. The amount of revenue in excess of rent paid is an asset called "deferred rental receipts". Over the next four years the asset will increase by approximately \$150 thousand per quarter excluding the impact of any future acquisitions or dispositions.

These changes noted above have been applied prospectively, as permitted by the CICA, and no changes are required to previous years.

Net earnings for the third quarter of 2004 were \$1.081 million or \$.02 per share compared to \$746 thousand in the third quarter of 2003 or \$.02 per share, an increase of 45%. For the nine-month period ended September 30, 2004, net earnings are \$1.903 million or \$.04 per share compared to \$1.884 million or \$.04 per share in 2003. The net earnings for the year-to-date numbers are directly impacted by the changes in accounting policies noted above by an accumulated reduction of approximately \$1 million before taxes. While our earnings in 2004 are very comparable to the 2003 results for the first nine months, this is after the full effect of the accounting policy changes have been taken. All operations are performing as expected for the year-to-date 2004. The stability of funds from operations allows the Company to accurately forecast its revenue stream and to make adjustments to its operations in order to enhance future shareholder value.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Segmented Information

Office Portfolio

	3 Months Ended September 30 2004	3 Months Ended September 30 2003	9 Months Ended September 30 2004	9 Months Ended September 30 2003
	(Thousands)			
Revenue	\$3,752	\$4,020	\$11,967	\$9,380
Net operating income	\$2,347	\$2,133	\$7,028	5,437

Homburg Invest's office portfolio consists of 30 small to medium sized office buildings in Atlantic Canada, Alberta, British Columbia and the western United States with a total area of 1,118,906 square feet. The office revenue stream has remained stable compared to 2003. The reduction in third quarter 2004 revenue of \$268 thousand compared to 2003 reflects the sale of two small office complexes during the quarter and higher vacancy in the portfolio over the same period in 2003. The improved net operating income has resulted from cost controls in the quarter and year-to-date.

Overall occupancy in the office portfolio was 88.4% at September 30, 2004.

Retail Portfolio

	3 Months Ended September 30 2004	3 Months Ended September 30 2003	9 Months Ended September 30 2004	9 Months Ended September 30 2003
	(Thousands)			
Revenue	\$4,200	\$4,054	\$11,948	\$9,361
Net operating income	\$3,030	\$2,794	\$8,516	\$6,039

Homburg Invest's retail portfolio consists of 35 retail operations including the Confederation Court Mall in Charlottetown, PEI, the Dartmouth Shopping Centre, and seven big box Zellers' locations across Canada having total rentable square footage of 1.47 million square feet. The retail rental revenue and net operating income for the third quarter on the properties held on September 30, 2004 have increased 4% and 8% respectively in the quarter over the same period in 2003. The US partnership interests in 3 shopping centres in the Eastern US which were disposed of in the fourth quarter of 2003 have been replaced with new Canadian shopping centres and the Pizza Hut portfolio in Montreal. Quarter over quarter revenue and net operating income in the retail portfolio have remained stable and strong.

Overall occupancy in the retail portfolio was 98.0% at September 30, 2004.

Residential Portfolio

	3 Months Ended September 30 2004	3 Months Ended September 30 2003	9 Months Ended September 30 2004	9 Months Ended September 30 2003
	(Thousands)			
Revenue	\$619	\$673	\$1,842	\$1,905
Net operating income	\$348	\$404	\$940	\$1,125

Homburg Invest's residential portfolio is primarily located in Nova Scotia and New Brunswick and consists of 11 properties with 352 units as at September 30, 2004. An aggressive renovation and upgrading program at the 72 unit Evangeline project in New Brunswick has impacted revenue and net operating income in the second and third quarters of 2004. This planned project is now completed for 2004 and will positively improve operations in the coming months.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Net operating income for the third quarter of 2004 was \$348 thousand compared to \$404 thousand in the same period in 2003.

The residential portfolio maintained a high overall average occupancy rate during 2004 and at September 30, 2004 the occupancy rate was 96.6%.

Industrial Portfolio

	3 Months Ended September 30 2004	3 Months Ended September 30 2003	9 Months Ended September 30 2004	9 Months Ended September 30 2003
	(Thousands)			
Revenue	\$753	\$747	\$2,294	\$2,147
Net operating income	\$662	\$665	\$2,011	\$1,877

Homburg Invest's industrial portfolio consists of eight industrial buildings located in Nova Scotia, New Brunswick, Newfoundland and British Columbia with a total area of 624 thousand square feet. The Company's industrial buildings generated \$753 thousand total rental revenue in the third quarter of 2004 and \$662 thousand in net operating income compared to \$747 thousand total rental revenue in third quarter 2003 and \$665 thousand in net operating income. The stability in operations in 2004 over 2003 is reflected above.

Overall occupancy in the industrial portfolio was 95.1% at September 30, 2004

Other Income

During the third quarter of 2004, Homburg Invest generated \$546 thousand in other income versus \$560 thousand in 2003. The income generated in 2004 came from the sale of 17th Avenue, Calgary and the West Park, Houston, Texas office properties, which together realized a gain of \$531 thousand. Interest income accounted for the balance of the 2004 other income.

General and Administration

General and administration expenses totalled \$770 thousand in the third quarter of 2004 compared to \$660 thousand in 2003. The increase in general and administration expenses over 2003 is directly related to higher asset management fees paid under our agreements with Homburg Canada Incorporated which reflect the increased property asset base of the Company.

Interest Expense

Interest expense for the third quarter was \$3.198 million in 2004, a decrease of \$644 thousand over 2003. The reduction of the interest costs over the same period last year primarily reflects the October 2003 disposition of approximately \$6 million in investments in Cedar Shopping Centers, Inc.'s operating limited partnership units which were funded by debt and the investments in three US shopping centres which were also disposed of in October 2003. The 2003 interest costs were partially offset by interest income of \$213 thousand as well as net property revenue on the shopping centres. This income is also not reoccurring. The Company's weighted average interest rate on real estate asset mortgage debt increased to 6.98% from 6.96% at December 31, 2003. For the quarter ended September 30, 2004, Homburg Invest had total interest coverage of 1.93 to 1 and a debt to equity ratio of 3.02 to 1 (Mortgages, Mortgage Bonds and Demand Loans ÷ Shareholder Equity).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Depreciation and Amortization

Depreciation and amortization amounted to \$1.037 million in the third quarter of 2004, an increase of \$391 thousand over 2003's charge of \$646 thousand. The current year's depreciation and amortization includes the new retail, office, industrial and residential properties acquired subsequent to September 30, 2003 and the change in accounting policy described above.

The impact of this change in accounting policy in the third quarter of 2004 is an increase in depreciation expense and a reduction in property assets of \$256 thousand and a reduction in net earnings and retained earnings of \$161 thousand after factoring the future income tax recovery of \$95 thousand.

Financial Condition

Assets

Total assets grew from \$257.1 million at December 31, 2003 to \$285.5 million at September 30, 2004. The table below summarizes Homburg Invest's asset base.

	September 30 2004 (Millions)	December 31 2003 (Millions)
Property and equipment	\$ 279.6	\$ 247.6
Receivables trade	2.1	2.1
Cash and cash equivalents	1.1	3.2
Investment, portfolio	1.1	1.1
Deferred rental receipts	.5	
Currency guarantee receivable		1.8
Other assets	<u>1.5</u>	<u>1.3</u>
	<u>\$ 285.9</u>	<u>\$ 257.1</u>

Receivables

Receivables consist of \$2.1 million amounts due from tenants which arise from the normal course of operations.

Investment Portfolio

The investment is a portfolio investment in Cedar Shopping Centers, Inc., a New York Stock Exchange listed REIT and represents 0.3% of the outstanding shares. Mr. Homburg is a Director of Cedar Shopping Centers, Inc.

Deferred Rental Receipts

As described earlier, Section 1100 in conjunction with 3065 of the CICA Handbook now requires that revenue on leased properties be recognized on the straight line basis over the term of the lease. The amount of revenue in excess of rent paid is an asset called deferred rental receipts. This account will increase by approximately \$150 thousand per quarter over the next four years notwithstanding the impact of any new acquisitions or dispositions. This change has been applied prospectively as permitted by the CICA and no changes are required to previous years.

Other Assets

Other assets are made up primarily of prepaid expenses for property taxes and deferred charges which relate to leasing fees and financing costs that are being amortized over the period of the appropriate lease or debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Capital Structure

The table below summarizes Homburg Invest's capital structure.

	September 30 2004 (Millions)		December 31 2003 (Millions)	
Mortgages and terms loans payable	\$ 119.3	47.2%	\$109.8	47.2%
Mortgage bonds payable	66.9	26.4%	69.3	29.8%
Currency guarantee payable	.6	.2%		
	186.8	73.8%	179.1	77.0%
Shareholders equity	66.2	26.2%	53.6	23.0%
	<u>\$ 253.0</u>	<u>100.0%</u>	<u>\$ 232.7</u>	<u>100.0%</u>

Debt on Real Estate Assets

Mortgages payable on revenue producing properties decreased by \$1.6 million in the third quarter. However, during the period, new mortgages totaling \$5.7 million were arranged and \$7.3 million was applied against mortgage debt as required under normal principal payments and to pay down the mortgages on the two office properties sold.

At September 30, 2004, the Company had two acquisition loan facilities totaling \$17.4 million, of which \$2.4 million had been used to acquire capital assets. Interest is charged on all of the demand loans at market competitive rates.

Currency Guarantee Payable

Since the issuance dates of the Series 1 and 2 mortgage bonds, the Canadian dollar has strengthened against the Euro to the extent of \$582 thousand at September 30, 2004, compared to a weakening against the Euro of \$1.8 million as at December 31, 2003. This improvement which results in a reduced long term debt obligation on the corporate bonds has been offset by the currency guarantee payable which has been recorded as a long term liability. The final settlement of the currency guarantee asset or obligation will take place at the earlier of the retirement of the bonds or their scheduled maturity. As a result of the guarantee, there is no earnings impact related to changes in currency value of the bonds.

Shareholders Equity

On September 30, 2004, the first semi-annual dividend of \$.06 per share was paid to the shareholders for total consideration of \$3.3 million. During the quarter ended September 30, 2004, the Company issued from Treasury 163,400 shares at \$1.53 per share and 8,333,332 shares at \$1.44 per share for an increase in equity of \$12,250,000. In addition, on September 30, 2004, 1,922,746 shares were issued from Treasury at \$1.449 per share under the Company's Dividend Reinvestment Plan for a further increase in equity of \$2.8 million. Total shareholder equity at September 30, 2004 was \$66.2 million.

Liquidity, Capital Resources and Capital Commitments

In the normal course of its business, Homburg Invest has capital requirements for the principal component of mortgage payments, tenant improvements, capital expenditures and dividends to shareholders. Homburg Invest funds these requirements with funds from operations; although in some cases expenditures and leasing costs are funded by the underlying mortgage or separate term debt. Capital expenditures totalled \$10.1 million in the third quarter of 2004. These acquisitions were financed by new first mortgage financing of \$5.7 million, \$250,000 in new shares and working capital.

Contractual Obligations	Payments Due by Period (In thousands)				
	Total	Less than 1 year	1 – 3 Years	4 – 5 Years	After 5 years
Long term debt	\$186,230	\$2,626	\$13,260	\$24,962	\$145,382
Capital lease obligations	NIL	NIL	NIL	NIL	NIL
Operating leases	\$293	\$41	\$135	\$117	NIL
Purchase obligations	NIL	NIL	NIL	NIL	NIL
Other long term obligations	NIL	NIL	NIL	NIL	NIL
Total contractual obligations	\$186,523	\$2,667	\$13,395	\$25,079	\$145,382

The Company intends to make all normal principal repayments over the term of each debt instrument and to renew the mortgages at maturity under terms similar to those currently in place.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

For the quarter ended September 30, 2004 funds from operations were \$2.2 million. Homburg Invest believes that funds from operations and \$15.0 million in credit lines available to it will be sufficient to fund near-term, nondiscretionary costs including approximately \$4 million required to complete tenant improvements at the Vintage Tower II in Calgary. The Company is in the process of placing a new first mortgage on the Vintage II property which will result in almost \$11 million of new funding. These proceeds will be put into working capital and used to pay down short term debt. The Company continues to manage its capital resources to maximize its opportunities for growth.

At September 30, 2004, there are no commitments for capital expenditures for property acquisitions other than the Vintage II property noted above.

The Company's most significant transaction in the third quarter was the acquisition of a major parcel of residential development lands, comprising 146 acres, in the Calgary market. "Homburg Springs" will ultimately comprise 3,700 residential units in both single-family and multi-family homes. When the final phases are completed over the next several years, the project value of Homburg Springs is estimated to be in excess of \$750 million dollars.

The property lies within the northerly City of Calgary annexation zone which is presently being finalized with the County of Rocky View. This is the last segment of lands in this area contemplated for annexation between the City of Calgary and the County of Rocky View and will form the northern boundary of the City for the foreseeable future.

Homburg Invest is also presently negotiating on a 250 acre mixed-use industrial development north of the Calgary International Airport. When fully developed, this commercial project will have an estimated market value of \$275 million dollars. Plans may include a variety of commercial uses to meet the needs of Calgary's continuing growth.

These two projects, with a combined projected value in excess of \$1billion dollars, will continue Homburg Invest's commitment to the long term potential of the Calgary market.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements. Any related party transactions are separately disclosed in this MD&A.

Transactions with Related Parties

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

a) The Company has entered into agreements with companies commonly controlled by the Chairman and Chief Executive Officer to provide various services at market rates. A summary of the various revenues and expenses between related parties year to date 2004 versus 2003:

	September 30 2004	September 30 2003
Rental revenue earned	<u>\$ (316,569)</u>	<u>\$ (299,654)</u>
Asset management fees paid	<u>\$ 1,522,193</u>	<u>\$ 1,137,304</u>
Property management fees paid	<u>\$ 1,328,309</u>	<u>\$ 727,918</u>
Service fees paid	<u>\$ 137,263</u>	<u>\$ 431,817</u>
Property acquisition fees paid	<u>\$ 635,000</u>	<u>\$ 2,823,125</u>
Mortgage bond guarantee fees paid	<u>\$ 796,437</u>	<u>\$ 596,626</u>
Demand loan interest and fees accrued	<u>\$ 226,850</u>	<u>\$ 894,945</u>

b) 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.

c) Professional services of approximately \$183,000 (September 30, 2003 – 276,836) were purchased from a firm and a corporation of which one (September 30, 2003 - two) of the Company's directors are affiliated in the third quarter of 2004.

d) The Company has entered into a guarantee arrangement for the principal and interest amounts, of the Mortgage Bonds payable to 2009 and 2010, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee fee per annum until maturity is 1.5% on the Series 1 Bonds and 2.0% on the Series 2 Bonds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Third Quarter 2004

The operating results for the September 2004 quarter results of operations, cash flows and financial condition of the Company are as contained in the budget approved by the board of directors. On property revenue of \$9.3 million, the earnings before interest and depreciation are approximately \$593 thousand above the original approved budget amount. When one considers the deferred revenue asset of \$460 thousand, the earnings are over budget by \$133 thousand. Management believes that the operating results and financial position of the Company for the full year will be as originally budgeted. The operating results for the first three quarters of 2004 reflect the stability of the revenue stream and funds from operations which the Company is able to achieve.

Economic and Industry Factors

In the third quarter of 2004, the economic and industry factors affecting the Company are substantially unchanged from the MD&A report issued for the first quarter ended March 31, 2004. The reader is therefore encouraged to review the March 31, 2004 MD&A for a complete discussion of all economic and industry factors affecting the Company.

Other Requirements

(a) Additional information relating to Homburg Invest Inc., including our Annual Information Form (AIF) is on our website at www.homburginvest.com and at SEDAR at www.sedar.com.

(b) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at September 30, 2004, Homburg Invest Inc. was authorized to issue an unlimited number of common shares. On that date, 56,383,554 common shares were issued for a recorded value of \$62.9 million.

To October 29, 2004 there have been no changes to the issued capital of the Company.

The Company continues to release its results under International Financial Reporting Standards ("IFRS") as well as under Canadian Generally Accepted Accounting Principles ("GAAP"). The IFRS statements are available to any reader of these financial statements.

Homburg Invest continues to look at a number of opportunities in the Canadian and US marketplace as our strong entrepreneurial management team demonstrates the willingness and abilities to adapt to changes in the real estate market environment.

"Signed"

R. Homburg, Phzn.
Chairman and CEO

"Signed"

I.D. MacInnis, CA
Vice President Finance and CFO

CONSOLIDATED INTERIM BALANCE SHEET

(Unaudited)

	September 30 2004	December 31 2003 (Audited)
Assets		
Property and equipment (Note 5)	\$ 279,625,275	\$ 247,643,426
Receivables	2,128,399	2,071,624
Cash and cash equivalents (Note 6)	1,102,188	3,213,381
Long term investment (Note 7)	1,086,172	1,086,172
Deferred charges, net of accumulated amortization of \$793,367 (2003 - \$469,804)	975,050	799,984
Prepays	571,645	482,107
Deferred rental receipts (Note 3 & 4)	460,729	
Currency guarantee receivable (Note 9)		1,801,412
	\$ 285,949,458	\$ 257,098,106
Liabilities		
Mortgages payable (Note 8)	\$ 119,320,714	\$ 109,795,803
Mortgage bonds payable (Note 9)	66,907,862	69,291,412
Demand loans payable (Note 11)	13,713,809	6,377,746
Accounts payable	6,002,198	5,714,379
Security deposits and prepaid rents (Note 10)	1,095,807	1,096,937
Currency guarantee payable (Note 9)	582,138	
	207,622,528	192,276,277
Future income taxes (Note 13)	12,115,946	11,243,918
Shareholders' Equity		
Capital stock (Note 12)	62,854,622	48,547,423
Contributed surplus (Note 3)	159,000	159,000
Retained earnings	4,768,545	6,232,823
Cumulative foreign currency translation amount	(1,571,183)	(1,361,335)
	66,210,984	53,577,911
	\$ 285,949,458	\$ 257,098,106

Commitments (Note 17)
Contingent liability (Note 18)

Approved by the Board, October 29, 2004

"Signed"

Richard Homburg, Phzn.
Director

"Signed"

Edward P. Ovsenny
Director

See accompanying notes to these consolidated interim financial statements prepared under Canadian GAAP
Financial statements prepared under International Financial Reporting Standards are also provided quarterly.

CONSOLIDATED INTERIM STATEMENT OF EARNINGS

(Unaudited)

	Three Mos. Ended September 30 2004	Three Mos. Ended September 30 2003	Nine Mos. Ended September 30 2004	Nine Mos. Ended September 30 2003
Property revenue	\$ 9,323,424	\$ 9,493,890	\$ 28,051,559	\$ 22,793,564
Interest income	14,399	213,730	67,010	505,471
Commission income		346,385		622,623
Gain on sale of assets	<u>531,494</u>		<u>531,494</u>	<u>41,046</u>
	<u>9,869,317</u>	<u>10,054,005</u>	<u>28,650,063</u>	<u>23,962,704</u>
Property operating expenses	<u>2,936,414</u>	3,497,850	<u>9,556,767</u>	8,315,420
General and administrative	<u>769,502</u>	<u>660,408</u>	<u>2,126,460</u>	<u>1,664,018</u>
	<u>3,705,916</u>	<u>4,158,258</u>	<u>11,683,227</u>	<u>9,979,438</u>
Earnings before other	<u>6,163,401</u>	<u>5,895,747</u>	<u>16,966,836</u>	<u>13,983,266</u>
Other (income) expenses				
Foreign exchange loss	20,200	45,888		125,594
Share in (income) of equity investment		(5,891)		(22,803)
Interest on mortgages and mortgage bonds	3,198,346	3,842,174	10,642,742	9,043,802
Depreciation and amortization	<u>1,037,136</u>	<u>645,708</u>	<u>3,074,408</u>	<u>1,436,771</u>
	<u>4,255,682</u>	<u>4,527,879</u>	<u>13,717,150</u>	<u>10,583,364</u>
Earnings before income taxes	<u>1,907,719</u>	1,367,868	<u>3,249,686</u>	3,399,902
Income taxes (Note 13)	<u>826,668</u>	<u>621,431</u>	<u>1,347,028</u>	<u>1,516,042</u>
Net earnings	<u>\$ 1,081,051</u>	<u>\$ 746,437</u>	<u>\$ 1,902,658</u>	<u>\$ 1,883,860</u>
Earnings per share (Note 16)				
Basic	<u>\$0.02</u>	<u>\$0.02</u>	<u>\$0.04</u>	<u>\$0.04</u>
Diluted	<u>\$0.02</u>	<u>\$0.02</u>	<u>\$0.04</u>	<u>\$0.04</u>

See accompanying notes to these consolidated interim financial statements prepared under Canadian GAAP
Financial statements prepared under International Financial Reporting Standards are also provided quarterly.

CONSOLIDATED INTERIM STATEMENT OF RETAINED EARNINGS

Nine Months Ended September 30 (Unaudited)

	2004	2003
Retained earnings, beginning of period	\$ 6,232,838	\$ 3,810,306
Premium on share redemption	(99,292)	(271,527)
Dividends	(3,267,659)	
Net earnings	<u>1,902,658</u>	<u>1,883,860</u>
Retained earnings, end of period	<u>\$ 4,768,545</u>	<u>\$ 5,422,639</u>

CONSOLIDATED INTERIM STATEMENT OF FUNDS FROM OPERATIONS

(Unaudited)

	Three Mos. Ended September 30 2004	Three Mos. Ended September 30 2003	Nine Mos. Ended September 30 2004	Nine Mos. Ended September 30 2003
Net earnings	\$ 1,081,051	\$ 746,437	\$ 1,902,658	\$ 1,883,860
Adjustments for:				
Gain on sale of assets	(531,494)		(531,494)	(41,046)
Depreciation and amortization	1,037,136	645,708	3,074,408	1,436,771
Future income taxes	551,668	521,431	872,028	1,296,042
Share in income of equity accounted investment		(5,891)		(22,803)
Foreign exchange loss	<u>20,200</u>	<u>45,888</u>	<u> </u>	<u>125,594</u>
Funds from operations	<u>\$ 2,158,561</u>	<u>\$ 1,953,573</u>	<u>\$ 5,317,600</u>	<u>\$ 4,678,418</u>

See accompanying notes to these consolidated interim financial statements prepared under Canadian GAAP. Financial statements prepared under International Financial Reporting Standards are also provided quarterly.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Unaudited)

	Three Mos. Ended September 30 2004	Three Mos. Ended September 30 2003	Nine Mos. Ended September 30 2004	Nine Mos. Ended September 30 2003
Cash obtained from (used for)				
Operating activities				
Funds from operations	\$ 2,158,561	\$ 1,953,573	\$ 5,317,600	\$ 4,678,418
Change in non-cash working capital				
Receivables	(836,087)	2,651,688	(56,775)	(474,655)
Prepays	204,588	(248,156)	(89,538)	(681,194)
Deferred rental receipts	(186,982)		(460,729)	
Accounts payable	2,731,316	1,010,989	287,819	3,052,820
Deferred charges	(72,952)	(591,073)	(498,629)	(246,934)
Security deposits & prepaid rents	143,407	(518,544)	(1,130)	472,250
Net cash from operating activities	<u>4,141,851</u>	<u>4,258,477</u>	<u>4,498,618</u>	<u>6,800,705</u>
Investing activities				
Investment in property & equipment	(11,412,138)	(2,783,159)	(35,078,143)	(89,269,002)
Investment in Cedar Income Fund, Ltd.				(1,384,392)
Proceeds on disposal of asset	1,270,970		1,270,970	
Proceeds on disposal of portfolio investments				200,694
Net cash used in investing activities	<u>(10,141,168)</u>	<u>(2,783,159)</u>	<u>(33,807,173)</u>	<u>(90,452,700)</u>
Financing activities				
Increase in demand loans payable	(4,953,127)	(1,048,503)	7,336,063	3,579,923
Increases (decrease) in mortgages payable	(6,577,428)	1,661,432	(7,475,089)	13,995,634
Increase in mortgages payable for new debt	5,700,000		17,000,000	
Proceeds from mortgage bonds				53,371,029
Redemption of common shares		(320,883)	(703,152)	(828,201)
Issue of common shares	11,476,140		11,521,140	
Dividends paid	(481,600)		(481,600)	
Payable to related company		(4,860,256)		819,700
Net cash from (used in) financing activities	<u>5,163,985</u>	<u>(4,568,210)</u>	<u>27,197,362</u>	<u>70,938,085</u>
Decrease in cash and cash equivalents	(835,332)	(3,092,892)	(2,111,193)	(12,713,910)
Cash and cash equivalents, beginning of period	<u>1,937,520</u>	<u>5,559,789</u>	<u>3,213,381</u>	<u>15,180,807</u>
Cash and cash equivalents, end of period	<u>\$ 1,102,188</u>	<u>\$ 2,466,897</u>	<u>\$ 1,102,188</u>	<u>\$ 2,466,897</u>

Supplemental cash flow information (Note 19)

See accompanying notes to these consolidated interim financial statements prepared under Canadian GAAP. Financial statements prepared under International Financial Reporting Standards are also provided quarterly.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

1. Basis of financial statement presentation

These financial statements have been prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). As Homburg Invest Inc. ("the Company") has a significant number of European shareholders who normally receive financial statements prepared under International Financial Reporting Standards ("IFRS"), the Company has also prepared a separate set of financial statements under IFRS. The most significant differences between Canadian GAAP and IFRS statements are the IFRS financial statements have recorded the investment property at fair market value, depreciation has not been recorded on the investment property and deferred charges have been written off.

2. Nature of operations

Homburg Invest Inc. a corporation incorporated under the laws of Alberta, Canada, is listed on The Toronto Stock Exchange under the symbol "HII".

The principal place of business is 11 Akerley Blvd, Suite 200, Halifax, Nova Scotia, Canada.

The Company and its subsidiaries hold commercial and residential real estate interests located in Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Quebec, Ontario, Alberta and British Columbia, Canada and Colorado, Texas and Washington State in the United States of America.

3. Summary of significant accounting policies

General and consolidation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Company's accounting policies and its financial disclosures are in accordance with the recommendations of the Canadian Institute of Chartered Accountants (CICA).

These consolidated financial statements include the accounts of the Company's wholly owned subsidiaries Homburg ShareCo Inc., Homburg Invest (USA) Limited, and Homburg (US) Incorporated, which are Canadian companies incorporated in the Province of Nova Scotia, and Homburg Holdings (US) Inc., which is incorporated in the State of Colorado.

In addition the Company's thirty-six wholly owned limited partnerships and six partially owned limited partnerships, which operate commercial and residential rental properties, are accounted for using proportionate consolidation.

Capitalization of costs

- i) The Company capitalizes property acquisition costs incurred at the time of purchase.
- ii) The Company capitalizes costs as part of properties under construction. These include direct carrying costs such as realty taxes and direct expenses applicable to its properties under construction and interest on debt specific to and secured by such properties.

Capitalization of costs to property under construction ceases at the earlier of achieving a satisfactory occupancy level or the expiration of a predetermined time limit.

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 bases. 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.

Depreciation

Properties held for investment are carried at the lower of cost less accumulated depreciation and fair market value. Depreciation on buildings is provided on the straight line basis over the estimated remaining useful lives of the properties to a maximum of 60 years. Depreciation is determined with reference to each rental property's carried value, remaining estimated useful life and residual value.

Tenant improvements subsequent to the initial tenant improvements are deferred and amortized over the lives of the leases to which they relate.

Pavement and equipment are depreciated using the declining balance method at the rate of 8% and 20% respectively.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

3. Summary of significant accounting policies (cont.)

Stock options and contributed surplus

The Company has a stock-based compensation plan which is described in Note 12. The Company accounts for its grant under this plan in accordance with the fair value-based method of accounting for stock-based compensation. The compensation cost that has been charged against income for the first nine months of 2004 was Nil as no stock options were granted in the period (September 30, 2003 - \$NIL).

Deferred charges

The Company follows a policy of capitalizing the costs associated with leasing commissions and obtaining long term financing. These costs are being amortized on a straight line basis over the life of the related debt or lease.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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

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

Foreign currency

Operations outside of Canada are considered to be self-sustaining and use their primary currency for recording substantially all transactions. The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates while revenues and expenses are converted using average quarterly translation rates. Gains and losses relating to these subsidiaries are deferred and included in the cumulative foreign currency translation account within shareholders' equity.

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.

4. Change in accounting policy and estimate

Depreciation Policy

Effective January 1, 2004, the Company changed its depreciation policy for Investment Properties from the sinking fund method to the straight line method. In accordance with the transitional provision of CICA Handbook Section 1100 the new policy has been applied prospectively.

Effective January 1, 2004, the Company reviewed the estimated remaining useful lives of its investment properties, on an individual basis. As a result of this review, the estimated useful life of some properties were changed. In accordance with the provisions of CICA Handbook Section 1506, the new estimates will be applied prospectively. The estimated remaining useful lives for our property assets now range from 40 to 60 years.

The impact of these changes on the current period is that Depreciation Expense is higher by \$788,458, Investment Properties are lower by \$788,458, and Net Earnings and Retained Earnings are lower by \$496,729 after factoring the future income tax recovery of \$291,729.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

4. Change in accounting policy and estimate (cont.)

Revenue recognition policy

Effective January 1, 2004, in compliance with new section 1100 and in combination with section 3065 of the CICA Handbook, the Company now recognizes revenue on leased property on a straight line basis over the term of the lease. The impact of this new policy is an increase in rental income of \$460,729 for the first nine months of 2004. The amount of revenue recognized over the rent paid is an asset called deferred rental receipts. Over the next four years the asset will increase by approximately \$150,000 per quarter.

The impact of these changes in the first nine months of 2004 is that rental revenue is higher by \$460,729, future income taxes is higher by \$170,469 and retained earnings are higher by \$290,260.

5. Property and equipment

	September 30 2004 (Audited)			December 31 2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 44,096,671		\$ 44,096,671	\$ 40,217,970		\$ 40,217,970
Buildings	206,435,212	5,017,853	201,417,359	189,317,264	3,233,780	186,083,484
Equipment	417,027	166,580	250,447	406,591	143,032	263,559
Paving	1,652,219	206,032	1,446,187	820,824	102,204	718,620
Tenant improvements	5,539,117	2,879,693	2,659,424	5,283,255	2,347,514	2,935,741
Land held for future development	7,483,836		7,483,836			
Property under construction	22,271,351		22,271,351	17,424,052		17,424,052
	<u>\$ 287,895,433</u>	<u>\$ 8,270,158</u>	<u>\$ 279,625,275</u>	<u>\$253,469,956</u>	<u>\$ 5,826,530</u>	<u>\$ 247,643,426</u>

In the first nine months of 2004 capital assets were acquired at an aggregate cost of \$34,425,477 net of disposals of \$916,316. The acquisitions were financed by new debt totaling \$17,000,000, the issue of \$250,000 in common stock and cash of \$17,175,477.

In 2003 capital assets were acquired at an aggregate cost of \$128,723,161. The acquisitions were financed by new debt totaling \$17,101,000, the assumption of debt totaling \$25,349,694, the issue of \$13,224,800 in common stock and cash of \$73,047,667.

The Company is developing a 124,500 square foot office building in Calgary, Alberta scheduled for completion and leasing in October 2004. In the first nine months of 2004, the Company expended \$4,847,299 (December 31, 2003 - \$12,601,660) on construction, of which \$1,174,750 (December 31, 2003 - \$1,025,000) was capitalized borrowing costs.

6. Cash and cash equivalents

	September 30 2004	December 31 2003 (Audited)
Cash	\$ 81,583	\$ 1,757,325
Restricted cash	<u>1,020,605</u>	<u>1,456,056</u>
	<u>\$ 1,102,188</u>	<u>\$ 3,213,381</u>

Restricted cash includes deposits on real estate properties, refundable commitment fees and security deposits.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

7. Long term investments

The Company holds 50,000 (2003 - 50,000) Common Shares of Cedar Shopping Centres, Inc. ("Cedar") a real estate investment trust listed on the New York Stock Exchange (NYSE: CDR) at a cost of \$1,086,172. The market value of this portfolio investment at September 30, 2004 was \$885,755 (December 31, 2003 - \$804,000).

8. Mortgages payable

	September 30 <u>2004</u>	December 31 <u>2003</u> (Audited)
Fixed rate mortgages, various maturities from 2004 to 2013, weighted average interest rate of 6.98% as at September 30, 2004 (December 31, 2003 - 6.96%). As security for those mortgages, the Company has pledged specific property, and an assignment of specific rents receivable.	<u>\$ 119,320,714</u>	<u>\$ 109,795,803</u>

Principal installments are payable as follows:

2004-remainder of year	\$ 2,625,530
2005	\$ 7,083,138
2006	\$ 6,176,522
2007	\$ 14,758,081
2008	\$ 10,203,505
Subsequent years	\$ 78,473,938

Included in the principal installments for the period 2004 to 2008 are normal maturities of mortgages totaling \$25,325,494, for which it is the Company's intention to seek renewals at market rates.

Included in mortgages payable at September 30, 2004 is USD \$14,673,061 (CAD \$18,512,369) of mortgage obligations (December 31, 2003 USD \$15,273,565 (CAD \$19,773,156)) secured by US property.

In 2003, \$2,000,000 of second mortgage debt was converted to equity at the mortgage holders option in return for the issuance of 2,089,095 common shares at \$.95735 per share.

9. Mortgage bonds payable

	September 30 <u>2004</u>	December 31 <u>2003</u> (Audited)
Series 1 Bonds	\$ 19,930,862	\$ 20,522,512
Series 2 Bonds	<u>46,977,000</u>	<u>48,768,900</u>
	<u>\$ 66,907,862</u>	<u>\$ 69,291,412</u>

Series 1 Bonds

The Series 1 Mortgage Bonds ("Bonds") were issued under an indenture dated December 15, 2002 in the amount of CDN \$20,000,000. The Bonds consist of CDN \$4,420,000 and EUR €9,905,398 bonds. The Bonds mature on December 15, 2009, and call for interest only payments until maturity.

The Bonds bear interest at a rate of 10% per annum in the case of the Canadian Bonds payable in Canadian Dollars and 8.5% per annum in the case of the Euro Bonds, payable in Euros, payable semi annually in arrears in equal installments on June 30 and December 31 in each year.

Series 2 Bonds

The Series 2 Mortgage Bonds ("Bonds") were issued under an indenture dated April 25, 2003 in the amount of EUR €30,000,000. The Bonds mature on April 25, 2010, and call for interest only payments until maturity.

The Bonds bear interest at a rate of 7.5% per annum, payable semi annually in arrears in equal installments on June 30 and December 31 in each year.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

9. Mortgage bonds payable (cont.)

The Company has entered into guarantee arrangements on both series of bonds to April 25, 2010, with a company under the control of the Chairman and Chief Executive Officer (Note 15). Under the terms of the guarantee, the Company is protected from devaluation of the Canadian dollar against the Euro and has relinquished any appreciation rights which may arise on the future settlement of its Euro denominated Bonds. The Bonds which are recorded at the prevailing exchange rate at September 30, 2004 reflect a decrease of \$582,138 (December 31, 2003 an increase of \$1,801,412) in principal amount representing the change in the Canadian dollar versus the Euro since the Bonds were issued. This decrease of \$582,138 (December 31, 2003 an increase of \$1,801,412) has been offset by the currency guarantee which has been recorded as a long term asset or obligation. The final settlement of the currency guarantee asset or obligation will take place at the earlier of the retirement of the bonds or their scheduled maturity. As a result of the guarantee, there is no earnings impact related to changes in currency value of the Bonds.

The Company has the option to redeem the Series 1 Bonds and Series 2 Bonds at their face amount after December 16, 2007 and April 26, 2008 respectively.

10. Security deposits and prepaid rents

	September 30 2004	December 31 2003 (Audited)
Security deposits	\$ 79,722	\$ 84,242
Prepaid rents	<u>1,016,085</u>	<u>1,012,695</u>
	<u>\$ 1,095,807</u>	<u>\$ 1,096,937</u>

The security deposits are segregated in a trust account.

11. Demand loans payable

	September 30 2004	December 31 2003 (Audited)
Acquisition demand loans, secured by first or second charges on specific assets	\$ 6,598,224	\$ 2,391,421
Acquisition demand loan, from a corporation controlled by the Chairman and Chief Executive Officer secured by assignment of units in wholly owned limited partnerships (Note 15)		1,106,588
Acquisition demand loan, from a corporation controlled by the Chairman and Chief Executive Officer (Note 15)		32,727
Promissory note, unsecured, from a corporation controlled by the Chairman and Chief Executive Officer (Note 15)	<u>7,115,585</u>	<u>2,847,010</u>
	<u>\$ 13,713,809</u>	<u>\$ 6,377,746</u>

Under existing credit facilities, the Company has \$15,000,000 of additional borrowing capacity available. Interest is charged at market competitive rates for demand loans.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

12. 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 Common Shares	Amount
Balance at December 31, 2002	35,034,074	\$ 34,046,472
Conversion of second mortgages	2,089,095	2,000,000
Issued to effect purchase of land April 1, 2003	91,240	125,000
Issued to effect purchase of assets June 6, 2003	9,999,847	13,099,800
Redeemed in accordance with quarterly redemption of shares	<u>(837,573)</u>	<u>(723,849)</u>
Balance at December 31, 2003	46,376,683	48,547,423
Redeemed in accordance with quarterly redemption of shares	(462,607)	(603,860)
Issued on exercise of stock options	50,000	45,000
Issued to effect purchase of assets on August 31, 2004	163,400	250,000
Issued to effect private placement on August 31, 2004	1,388,888	2,000,000
Issued to effect conversion of debt to equity on August 31, 2004	3,472,222	5,000,000
Issued to effect private placement on August 31, 2004	3,472,222	5,000,000
Issued pursuant to Dividend Reinvestment Plan September 30, 2004	1,922,746	2,786,059
Share issue costs for August 31, 2004 private placement		<u>(170,000)</u>
Balance at September 30, 2004	<u>56,383,554</u>	<u>\$ 62,854,622</u>

On August 31, 2004, 163,400 common shares were issued at \$1.53 per share to an arms length party as partial consideration for the purchase of a building in Calgary, Alberta. The shares issued represented fair market value of the assets acquired through the share consideration.

On August 31, 2004, 1,388,888 common shares were issued at \$1.44 per share to a Director for cash.

On August 31, 2004, 6,944,444 common shares were issued at \$1.44 per share to a corporation controlled by the Chairman and the Chief Executive Officer. 3,472,222 common were issued for cash and 3,472,222 common shares were issued to effect conversion of debt to equity.

On September 30, 2004, 1,922,746 common shares were issued at \$1.449 per share to shareholders of the corporation under the Dividend Reinvestment Plan approved by the Board of Directors July 29, 2004.

On April 1, 2003, 91,240 common shares were issued at \$1.37 per share to an arms length party as partial consideration for the purchase of land in Edmonton, Alberta. The shares issued represented fair market value of the assets acquired through the share consideration.

On June 6, 2003, 9,692,366 common shares issued at \$1.31 per share to a company controlled by the Chairman and Chief Executive Officer as consideration for the purchase of 100% of Homburg (US) Incorporated, which owns residential, office, and industrial properties in the western United States.

Also on June 6, 2003, 307,481 common shares were issued at \$1.31 per share to a company controlled by a director for the purchase of a 50% interest in a limited partnership which owns a commercial property in Fort Worth, Texas.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

12. Capital stock (cont.)

In 2002, the Company implemented a quarterly redemption program to redeem 2% of the common shares annually, or .5% quarterly based on the intrinsic value of the shares, as determined by the International Financial Reporting Standards financial statements prepared separately. This program was cancelled by the shareholders of the Company at its Annual General Meeting June 18, 2004.

	2004		2003 (Audited)	
	Shares Redeemed	Redemption Price	Shares Redeemed	Redemption Price
March	231,883	\$ 1.51	185,616	\$ 1.37
June	230,724	\$ 1.53	184,688	\$ 1.37
September			234,220	\$ 1.37
December			233,049	\$ 1.37
	462,607		837,573	

Stock options

Under the Company's Stock Option Plan, the Company may grant options to its directors and officers of the Company and employees of the management company up to 3,528,600 shares of common stock. Under the plan, the exercise price of each option shall not be less than the closing market price of the common shares on the TSX on the last trading day prior to the date of granting of the stock option and an option's maximum term is 5 years. Options are granted at the discretion of the Board of Directors and vest immediately.

In 2002 the Company adopted the provisions of section 3870 of the CICA Handbook concerning Stock Based Compensation and Other Payments wherein fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for the grant in 2002: dividend yield of Nil; expected volatility of 10%, risk-free interest rate of 4.2% and expected life of 5 years.

A summary of the status of the Company's Stock Option Plan as at September 30, 2004 and December 31, 2003 and changes during the periods ending on those dates is presented below.

	September 30 2004		December 31 2003 (Audited)	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2,755,500	\$ 1.14	2,755,500	\$ 1.14
Granted	NIL		NIL	
Exercised	(50,000)	\$ 0.90	NIL	
Expired	(158,000)	\$ 0.90	NIL	
Outstanding at end of period	2,547,500	\$ 1.16	2,755,500	\$ 1.14

Number of Shares Under Option	Date of Grant	Expiration Date	Exercise Price
487,811	October 23, 2000	October 22, 2005	\$ 1.10
425,000	June 13, 2001	June 12, 2006	\$ 0.90
100,000	October 16, 2001	October 15, 2006	\$ 0.95
1,534,689	February 8, 2002	February 7, 2007	\$ 1.26
2,547,500			

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

13. Income taxes

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

	September 30 2004	September 30 2003
Earnings before income taxes	<u>\$ 3,249,686</u>	<u>\$ 3,399,902</u>
Combined Canadian basic federal and provincial income tax rate	37.00%	41.12%
Less: reduction in future tax rates based on enacted or substantively enacted tax laws at the year end date.	<u>37.00%</u>	<u>38.12%</u>
		3.00
Income taxes	<u>\$ 1,202,384</u>	<u>\$ 1,296,042</u>
Increase (decrease) in income taxes resulting from:		
Large corporation tax	475,000	220,000
Other - adjustment of cumulative future income tax rate from 38.12% to 37.00%	<u>(330,356)</u>	<u> </u>
	<u>\$ 1,347,028</u>	<u>\$ 1,516,042</u>
Income taxes:		
Large corporation taxes	<u>\$ 475,000</u>	<u>\$ 220,000</u>
Future income taxes	<u>872,028</u>	<u>1,296,042</u>
	<u>\$ 1,347,028</u>	<u>\$ 1,516,042</u>

Future income taxes represent temporary timing differences resulting from income tax versus accounting depreciation. The accumulated future income tax liability at September 30, 2004 was \$12,115,946 (December 31, 2003 - \$11,243,918).

14. Financial instruments and risk management

Financial instruments

The Company does not acquire, hold or issue derivative financial instruments for trading purposes.

Mortgages and mortgage bonds payable are the only long term financial instruments the Company holds. The mortgages have a fair value of \$127,928,941 (December 31, 2003 - \$113,523,829). The principal amount of the mortgage bonds issued during the year have been guaranteed against currency fluctuations until maturity of the bonds in 2009 and 2010. The fair market value of the mortgage bonds is \$70,554,396 (December 31, 2003 - \$69,492,409).

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.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

14. Financial instruments and risk management (cont.)

Risk management

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

a) 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.

c) Currency risk

Currency risk arises from debt or expenses denominated in US Dollars or Euro's. The Company mitigates currency risk of debt denominated in Euro's through a guarantee agreement (See note 9). Currency risk for amounts denominated in US Dollars is mitigated by US Dollar revenue streams from property rentals.

15. Related party transactions

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

a) The Company has entered into agreements with companies commonly controlled by the Chairman and Chief Executive Officer to provide various services at market rates. A summary of the various revenues and expenses between related parties are as follows:

	September 30 2004	September 30 2003
Rental revenue earned	<u>\$ (316,569)</u>	<u>\$ (299,654)</u>
Asset management fees paid	<u>\$ 1,522,193</u>	<u>\$ 1,137,304</u>
Property management fees paid	<u>\$ 1,328,309</u>	<u>\$ 727,918</u>
Service fees paid	<u>\$ 137,263</u>	<u>\$ 431,817</u>
Property acquisition fees paid	<u>\$ 635,000</u>	<u>\$ 2,823,125</u>
Mortgage bond guarantee fees paid	<u>\$ 796,437</u>	<u>\$ 596,626</u>
Demand loan interest and fees accrued	<u>\$ 226,850</u>	<u>\$ 894,945</u>

b) 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.

c) Professional services of approximately \$183,000 (September 30, 2003 - \$276,836) were purchased from a firm and a corporation of which one (September 30, 2003 - two) of the Companies directors are affiliated in 2004.

d) The Company has entered into a guarantee arrangement for the principal and interest amounts, of the Mortgage Bonds payable to 2009 and 2010, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee fee per annum until maturity is 1.5% on the Series 1 Bonds and 2.0% on the Series 2 Bonds.

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

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

16. Earnings per share

Net income per share has been calculated based on the weighted average number of shares outstanding as follows:

Three months ended September 30,

	2004	2003
Basic	48,755,649	46,818,475
Fully diluted	49,119,594	47,050,473

Nine months ended September 30,

	2004	2003
Basic	47,075,202	41,022,593
Fully diluted	47,337,585	41,130,770

The dilution of 262,383 shares (September 30, 2003 - 108,177) pertains to the exercise of options and the share buy back under the Treasury Method.

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 funds from operations is calculated on the same basis.

17. Commitments

a) The following is a schedule of the future minimum lease payments on several leases of a subsidiary company.

2004	\$	41,172
2005	\$	68,101
2006	\$	66,981
2007	\$	66,981
2008	\$	50,240

b) One of the wholly owned limited partnerships has entered into a non competition agreement with the previous owners of the real estate which requires an annual payment of \$100,000. The agreement expires in 2009.

c) The Company and its subsidiaries have entered into various property management agreements at market value rates, expiring between 2010 and 2012. (See Note 15a)

d) The Company has committed to build a retail property in Kentville, Nova Scotia for \$1,100,000.

18. 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.

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

19. Supplemental cash flow information

	September 30 2004	September 30 2003
Interest paid	<u>\$ 9,716,877</u>	<u>\$ 6,315,373</u>
Capital and income taxes paid	<u>\$ 393,000</u>	<u>\$ 280,000</u>
Interest received	<u>\$ 67,010</u>	<u>\$ 174,527</u>

20. Segmented Information

The Company owns a diverse portfolio of residential and mid-sized commercial income-producing properties located in 8 Canadian Provinces and 3 U.S. States. The accounting policies used in the preparation of the segmented information are the same as those described for the Company in Note 3 - Accounting Policies. The Company primarily evaluates operating performance based on net operating income. As such, interest, depreciation and amortization, and general and administrative expenses have not been allocated to the segments. All key decisions pertaining to these items are managed centrally. The following provides a summary of key information of the Company's residential and commercial operating segments:

Nine Months Ended September 30, 2004

	Retail	Industrial	Office	Residential	Total
Property revenue	\$11,948,412	\$ 2,293,603	\$11,967,414	\$ 1,842,130	\$28,051,559
Operating expenses	<u>3,432,758</u>	<u>282,723</u>	<u>4,939,472</u>	<u>901,814</u>	<u>9,556,767</u>
Net operating income	<u>\$ 8,515,654</u>	<u>\$ 2,010,880</u>	<u>\$ 7,027,942</u>	<u>\$ 940,316</u>	<u>\$18,494,792</u>

Nine Months Ended September 30, 2003

	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 9,361,460	\$ 2,147,443	\$ 9,379,671	\$ 1,904,990	\$22,793,564
Operating expenses	<u>3,322,368</u>	<u>270,781</u>	<u>3,942,170</u>	<u>780,101</u>	<u>8,315,420</u>
Net operating income	<u>\$ 6,039,092</u>	<u>\$ 1,876,662</u>	<u>\$ 5,437,501</u>	<u>\$ 1,124,889</u>	<u>\$14,478,144</u>

CANADA

US

Nine months ended September 30, 2004

	West	Central	Atlantic		Total
Property revenue	\$ 7,356,266	\$ 2,871,113	\$13,775,000	\$ 4,049,180	\$28,051,559
Operating expenses	<u>2,394,231</u>	<u>34,117</u>	<u>5,111,102</u>	<u>2,017,317</u>	<u>9,556,767</u>
Net operating income	<u>\$ 4,962,035</u>	<u>\$ 2,836,996</u>	<u>\$ 8,663,898</u>	<u>\$ 2,031,863</u>	<u>\$18,494,792</u>

CANADA

US

Nine Months Ended September 30, 2003

	West	Central	Atlantic		Total
Property revenue	\$ 6,909,741	\$ 1,162,451	\$11,603,879	\$ 3,117,493	\$22,793,564
Operating expenses	<u>2,353,606</u>	<u> </u>	<u>4,542,776</u>	<u>1,419,038</u>	<u>8,315,420</u>
Net operating income	<u>\$ 4,556,135</u>	<u>\$ 1,162,451</u>	<u>\$ 7,061,103</u>	<u>\$ 1,698,455</u>	<u>\$14,478,144</u>

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

20. Segmented information (cont.)

September 30, 2004	Retail	Industrial	Office	Residential	Total
Investment property	<u>\$ 108,518,896</u>	<u>\$ 25,412,130</u>	<u>\$ 125,491,452</u>	<u>\$ 20,202,796</u>	<u>\$279,625,274</u>
Mortgages payable	<u>\$ 38,301,860</u>	<u>\$ 13,533,971</u>	<u>\$ 55,587,580</u>	<u>\$ 11,897,303</u>	<u>\$119,320,714</u>
Mortgage bonds payable	<u>\$ 48,730,916</u>	<u>\$ 5,842,732</u>	<u>\$ 12,334,214</u>	<u>\$</u>	<u>\$ 66,907,862</u>

December 31, 2003	Retail	Industrial	Office	Residential	Total
Investment property	<u>\$ 89,371,327</u>	<u>\$ 24,469,562</u>	<u>\$ 119,359,067</u>	<u>\$ 14,443,470</u>	<u>\$247,643,426</u>
Mortgages payable	<u>\$ 25,654,023</u>	<u>\$ 13,860,911</u>	<u>\$ 58,251,935</u>	<u>\$ 12,028,934</u>	<u>\$109,795,803</u>
Mortgage bonds payable	<u>\$ 50,718,539</u>	<u>\$ 5,541,078</u>	<u>\$ 13,031,795</u>	<u>\$</u>	<u>\$ 69,291,412</u>

September 30, 2004	CANADA			US	Total
	West	Central	Atlantic		
Investment property	<u>\$ 96,990,339</u>	<u>\$ 34,586,510</u>	<u>\$ 110,821,407</u>	<u>\$ 37,227,018</u>	<u>\$279,625,274</u>
Mortgages payable	<u>\$ 34,994,640</u>	<u>\$ 6,611,162</u>	<u>\$ 59,202,543</u>	<u>\$ 18,512,369</u>	<u>\$119,320,714</u>
Mortgage bonds payable	<u>\$ 17,083,462</u>	<u>\$ 24,453,236</u>	<u>\$ 25,371,164</u>	<u>\$</u>	<u>\$ 66,907,862</u>

December 31, 2003	CANADA			US	Total
	West	Central	Atlantic		
Investment property	<u>\$ 81,737,240</u>	<u>\$ 24,753,517</u>	<u>\$ 104,053,604</u>	<u>\$ 37,099,065</u>	<u>\$247,643,426</u>
Mortgages payable	<u>\$ 33,816,848</u>	<u>\$</u>	<u>\$ 56,205,798</u>	<u>\$ 19,773,157</u>	<u>\$109,795,803</u>
Mortgage bonds payable	<u>\$ 17,745,740</u>	<u>\$ 24,618,964</u>	<u>\$ 26,926,708</u>	<u>\$</u>	<u>\$ 69,291,412</u>

West - British Columbia, Alberta; **Central** - Ontario, Quebec; **Atlantic** - Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland

21. Rental income under operating leases

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

2004	\$ 25,665,939
2005	22,424,681
2006	19,805,633
2007	17,581,552
2008	14,993,344
Thereafter	<u>133,708,397</u>
	<u>\$ 234,179,546</u>

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

22. Interest in joint ventures

The Company, at September 30, 2004, and December 31, 2003, owns a partial interest in six limited partnerships. The ownership percentages range from 5.63% to 85%. These partnerships operate commercial rental properties.

These financial statements reflect the Company's share of the assets, liabilities revenue and expenses of the limited partnerships in accordance with the principle of proportionate consolidation as follows:

	September 30	December 31
	<u>2004</u>	<u>2003</u>
		(Audited)
Assets		
Cash	\$ 96,747	\$ 142,684
Receivables	115,099	105,437
Prepaid and deferred charges	127,379	76,542
Property and equipment	<u>7,739,000</u>	<u>7,693,657</u>
	<u>\$ 8,078,225</u>	<u>\$ 8,018,320</u>
Liabilities		
Payables and accruals, trade	\$ 214,840	\$ 104,482
Security deposits and prepaid rent	10,163	15,213
Mortgages payable	<u>4,143,538</u>	<u>4,228,736</u>
	<u>\$ 4,368,541</u>	<u>\$ 4,348,431</u>
Revenue		
Property revenue	<u>\$ 1,078,029</u>	<u>\$ 2,231,417</u>
Expenses		
Property operating expenses	\$ 513,657	\$ 735,735
Mortgage interest	219,935	695,187
Depreciation and amortization	<u>90,056</u>	<u>220,457</u>
	<u>\$ 823,648</u>	<u>\$ 1,651,379</u>

NOTES TO CANADIAN GAAP CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited) September 30, 2004 and 2003

23. Reconciliation of Canadian Generally Accepted Accounting Principles and International Financial Reporting Standards

These consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Material differences between Canadian GAAP and International Financial Reporting Standards ("IFRS") are described below.

	September 30, 2004			December 31, 2003		
	Shareholders Assets	Equity	Net Income (loss)	Assets	Shareholders Equity	Net Income (loss)
	(9 months)			(12 months)		
Canadian GAAP	\$ 285,949,458	\$ 66,210,984	\$ 1,902,658	\$ 257,098,106	\$ 53,577,911	\$ 2,846,143
Property (1)	45,393,279	22,608,434	22,784,845	22,926,071	14,719,518	8,206,772
Deferred charges (2)	(975,051)	(540,794)	(434,255)	(799,984)	(799,984)	(640,803)
Future income tax (3)		11,824,296	(4,930,597)		2,552,424	(1,052,136)
IFRS	\$ 330,367,686	\$100,102,920	\$ 19,322,651	\$ 279,224,193	\$ 70,049,869	\$ 9,359,976
Earnings per share			<u>\$0.40</u>			<u>\$0.22</u>
Diluted earnings per share			<u>\$0.39</u>			<u>\$0.22</u>


(1) Under International Accounting Standards Pronouncement IAS-40, the real property assets of the Company may be valued at fair market value. Reflecting the real property assets at fair market value results in the assets being increased by \$45,393,279 (December 31, 2003 - \$22,926,071), shareholders equity being increased by \$22,608,434 (December 31, 2003 - \$14,719,518) before considering the future income tax impact of the revaluation surplus. Earnings before income taxes increased by \$22,784,845 (December 31, 2003 - \$8,206,772) through the elimination of the depreciation charges and the recognition of \$20,034,000 (December 31 - \$7,121,390) of documented revaluation surplus for the period ended.

(2) Under International Accounting Standards Pronouncement IAS-22, deferred charges relating to leasing fees and financing costs, except those related to new construction or acquisitions, are to be written off in the year incurred rather than being deferred and amortized over the period of the related lease or debt financing. In the September 30, 2004 consolidated financial statements prepared under IFRS, deferred charges have been written off resulting in assets being reduced by \$975,051 (December 31, 2003 - \$799,984) in the current period, shareholders equity being reduced by \$540,794 (December 31, 2003 - \$799,984) and earnings before income taxes being reduced by \$434,255 (December 31, 2003 - \$640,803).

(3) Under International Accounting Standards Pronouncement IAS-12, future income tax provisions must be made to reflect the impact of the above noted adjustments on the income statement. On the September 30, 2004 consolidated financial statements equity has been reduced by \$11,824,296 (December 31, 2003 - \$2,552,424) and earnings have been decreased by \$4,930,597 (December 31, 2003 - \$1,052,136).

24. Comparative figures

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



HOMBURG

Homburg Invest Inc.

200 - 11 Akerley Boulevard
P.O. Box 8896
Halifax, Nova Scotia
Canada
B3K 5M5

Tel: 902.468.3395
Fax: 902.469.6776
www.homburginvest.com