

**International
Financial
Reporting
Standards**

Homburg Invest Inc.

HOMBURG

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

September 30, 2004

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Nine Months Ended September 30, 2004 and 2003

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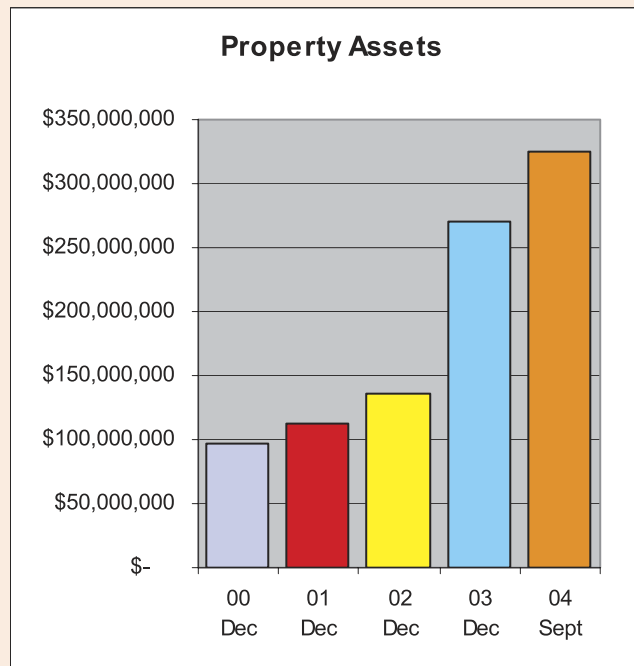


October 29, 2004

Dear Shareholder:

Enclosed herewith you will find a copy of your Company's third quarter financial statements prepared in accordance with **International Financial Reporting Standards** 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 225%. 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.

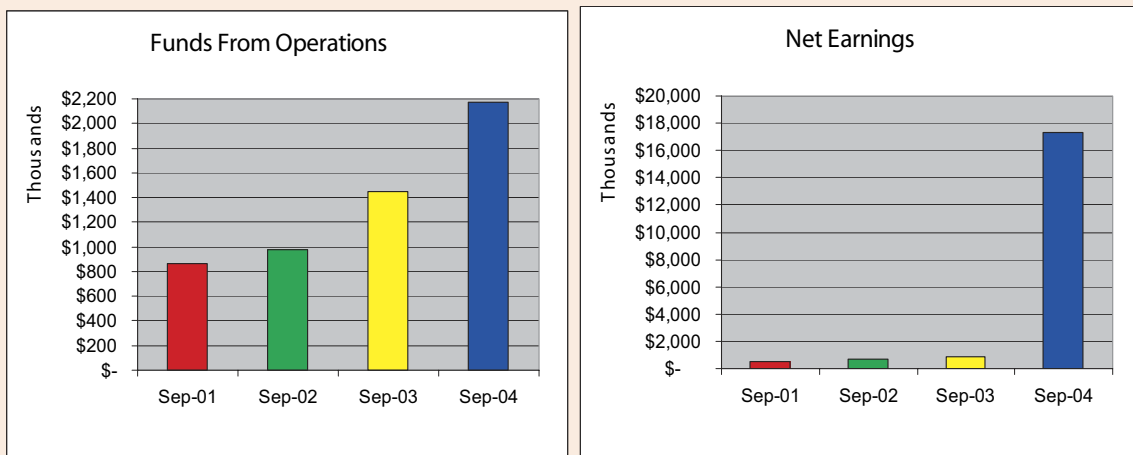


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The Company has always believed that in a public real estate company, the most relevant statistics on the income statement are the funds from operations. Our funds from operations for the third quarter of 2004 was \$2.2 million, an increase of \$726 thousand (50%) over the third quarter in 2003. Funds from operations for the third quarter of \$2.2 million are significantly improved over the funds generated of \$1.0 million in the second quarter of 2004.

Net earnings for the third quarter of 2004 were \$17.3 million or \$.35 per share compared to \$833 thousand in the third quarter of 2003. The net earnings for the third quarter reflect unrealized valuation increases resulting from independent appraisals completed on a number of the Company's properties during the third quarter. Management is confident that the portfolio continues to be conservatively valued.



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 **International Financial Reporting Standards** 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 fair value of \$325 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	Fair Value	No. of Units	Gross Square Footage	No. of Properties	Fair Value	No. of Units	Gross Square Footage
Office	30	\$119,388,407		1,118,906	33	\$110,773,848		1,180,703
Retail	35	128,018,647		1,472,388	23	97,842,079		1,325,079
Residential	11	18,394,225	352	367,023	11	18,390,080	352	367,023
Industrial	8	26,139,438		624,080	7	26,139,478		582,212
SUB-TOTAL	84	\$291,940,717	352	3,582,397	74	\$253,145,445	352	3,455,017
Properties Under Development*	1	25,594,000			1	17,424,052		
Land**	2	7,483,836		146 acres				
TOTAL	87	\$325,018,553	352	3,582,397	75	\$270,569,497	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	\$2,172	\$1,446	\$4,884	\$3,921
Funds from operations per share - basic and diluted	\$.05	\$.04	\$.10	\$.10
Net Earnings	\$17,310	\$833	\$19,323	\$2,320
Earnings per share - basic	\$.35	\$.02	\$.40	\$.06
- diluted	\$.35	\$.02	\$.39	\$.06

The funds from operations for the third quarter of 2004 was \$2.2 million or \$.05 per share compared to funds from operations of \$1.4 million in 2003 \$.04 per share. The funds from operations for the nine months year-to-date in 2004 is \$4.9 million or \$.10 per share compared to \$3.9 million also \$.10 per share in 2003. The funds from operations for the third quarter of \$2.2 million are significantly improved over the funds generated of \$1.0 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 has been a significant change in International Financial Reporting Standards (IFRS) produced by the International Accounting Standards Board (IASB) that impacts the net earnings of Homburg Invest Inc. now and into the future. IAS 17 of the IFRS 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.

This change noted above has been applied prospectively, as permitted by the IASB, and no changes are required to previous years.

Net earnings for the third quarter of 2004 were \$17.3 million or \$.35 per share compared to \$833 thousand in the third quarter of 2003 or \$.02 per share. For the nine-month period ended September 30, 2004, net earnings are \$19.3 million or \$.40 per share compared to \$2.3 million or \$.06 per share in 2003. In 2004 there has been a significant increase in the earnings multiple that arms length parties are prepared to pay for quality real estate. In recognition of this change in valuation factors, the Company has completed new independent appraisals on the Vintage properties, the Zellers locations, the Pizza Hut portfolio and the Co-op Atlantic buildings in the third quarter. The net earnings for the third quarter reflect unrealized valuation increases resulting from those appraisals of \$19.9 million or 16.2 million on a net after tax basis. Management is confident that the portfolio continues to be conservatively valued. 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.

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	\$2,441	\$2,133	\$6,767	5,324

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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	\$2,917	\$2,781	\$8,332	\$5,889

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 5% 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	\$374	\$404	\$950	\$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.

Net operating income for the third quarter of 2004 was \$374 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	\$668	\$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 \$668 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Unrealized Valuation Changes

As noted in the opening comments, independent third party appraisals were carried out on four of the Company's more significant assets in the third quarter. The result of these appraisals has been to increase the unrealized valuation income by \$19.9 million. The revaluation of the Company's assets is an ongoing process and as adjustments are documented, these changes in value of the properties will be reflected in the statements.

Other Income

During the third quarter of 2004, Homburg Invest generated \$164 thousand in other income versus \$560 thousand in 2003. The income generated in 2004 came from realized valuation changes for \$149 thousand, and interest income. The realized valuation change of \$149 thousand was over and above the appraised value previously recorded for the 28th Street, Calgary and the West Park, Houston, Texas properties.

General and Administration

General and administration expenses totalled \$770 thousand in the third quarter of 2004 compared to \$809 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 \$3.2 million in 2004, a decrease of \$1.0 million 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 from 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 8.03 to 1 and a debt to equity ratio of 1.87 to 1.

Financial Condition

Assets

Total assets grew from \$279.2 million at December 31, 2003 to \$330.4 million at September 30, 2004. The table below summarizes Homburg Invest's asset base.

	September 30 2004 (Millions)	December 31 2003 (Millions)
Cash and cash equivalents	\$ 1.1	\$ 3.2
Receivables trade	2.1	2.1
Investment, portfolio	1.1	1.1
Other assets	.6	.5
Currency guarantee receivable		1.8
Deferred rental receipts	.5	
Property and equipment	<u>325.0</u>	<u>270.5</u>
	<u>\$ 330.4</u>	<u>\$ 279.2</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 Centres, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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.

Deferred Rental Receipts

As described earlier, Section IAS 17 of the IFRS 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 income. 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 IASB and no changes are required to previous years.

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	41.6%	\$109.8	44.1%
Mortgage bonds payable	66.9	23.3%	69.3	<u>27.8%</u>
Currency Guarantee Payable	<u>.6</u>	<u>.2%</u>	<u>179.1</u>	<u>71.9%</u>
Shareholders equity	<u>100.1</u>	<u>34.9%</u>	<u>70.0</u>	<u>28.1%</u>
	<u>\$ 286.9</u>	<u>100.0%</u>	<u>\$ 249.1</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. 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 \$100.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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.

<i>Contractual Obligations</i>	<i>Payments Due by Period (In thousands)</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 – 3 Years</i>	<i>4 – 5 Years</i>	<i>After 5 years</i>
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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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.

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, except that a significant improvement in the valuation of property has allowed a \$19.9 million increase in our unrealized valuation changes which had not been previously anticipated. On property revenue of \$9.3 million, the earnings before interest are approximately \$435 thousand above the original approved budget amount. When one considers the deferred revenue asset of \$460 thousand, the earnings are under budget by \$25 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.

The IFRS financial statements are prepared by management on a quarterly basis without review by the auditors. The year end IFRS financial statements are audited and an opinion expressed.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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 GAAP 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 - Prepared by Management - All figures in Canadian Dollars)

	September 30 2004	December 31 2003 (Audited)
Assets		
Cash and cash equivalents (Note 6)	\$ 1,102,188	\$ 3,213,381
Receivables	2,128,399	2,071,624
Prepays	571,645	482,107
Long term investments (Note 3)	1,086,172	1,086,172
Deferred rental receipts (Note 3)	460,729	
Investment property (Notes 3 and 5)	325,018,553	270,569,497
Currency guarantee receivable (Note 9)	<u>1,801,412</u>	<u>1,801,412</u>
	<u>\$ 330,367,686</u>	<u>\$ 279,224,193</u>
Liabilities		
Accounts payable	\$ 6,002,198	\$ 5,714,379
Security deposits and prepaid rents (Note 10)	1,095,807	1,096,937
Mortgage bonds payable (Note 9)	66,907,862	69,291,412
Demand loans payable (Note 11)	13,713,809	6,377,746
Mortgages payable (Note 8)	119,320,714	109,795,803
Currency guarantee payable (Note 9)	<u>582,138</u>	<u>192,276,277</u>
	<u>207,622,528</u>	<u>192,276,277</u>
Future income taxes (Note 13)	<u>22,642,238</u>	<u>16,898,047</u>
Shareholders' Equity		
Capital stock (Note 12)	62,854,622	48,547,423
Contributed surplus	159,000	159,000
Retained earnings	38,660,481	22,704,781
Cumulative foreign currency translation amount	<u>(1,571,183)</u>	<u>(1,361,335)</u>
	<u>100,102,920</u>	<u>70,049,869</u>
	<u>\$ 330,367,686</u>	<u>\$ 279,224,193</u>

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 financial statements prepared under International Financial Reporting Standards.
Financial statements prepared under Canadian GAAP are also provided quarterly.

CONSOLIDATED INTERIM STATEMENT OF EARNINGS

(Unaudited - Prepared by Management - All figures in Canadian Dollars)

	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
Realized valuation changes	149,497		149,497	
Unrealized valuation changes	<u>19,904,000</u>		<u>20,034,000</u>	<u>41,046</u>
	<u>29,391,320</u>	<u>10,054,005</u>	<u>48,302,066</u>	<u>23,962,704</u>
Property operating expenses	<u>2,922,668</u>	3,511,194	<u>9,991,022</u>	8,578,898
General and administrative	<u>769,502</u>	<u>809,101</u>	<u>2,126,460</u>	<u>1,812,711</u>
	<u>3,692,170</u>	<u>4,320,295</u>	<u>12,117,482</u>	<u>10,391,609</u>
Earnings before interest, income taxes, and other (income) expenses	<u>25,699,150</u>	<u>5,733,710</u>	<u>36,184,584</u>	<u>13,571,095</u>
Other (income) expenses				
Foreign exchange loss	20,200	45,888		125,594
Share in (income) loss of equity investment		(17,752)		(58,385)
Interest on mortgages and mortgages bonds	<u>3,198,346</u>	<u>4,197,403</u>	<u>10,642,742</u>	<u>9,399,031</u>
	<u>3,218,546</u>	<u>4,225,539</u>	<u>10,642,742</u>	<u>9,466,240</u>
Earnings before income taxes	<u>22,480,604</u>	1,508,171	<u>25,541,842</u>	4,104,855
Income taxes (Note 13)	<u>5,170,412</u>	<u>674,914</u>	<u>6,219,191</u>	<u>1,784,770</u>
Net earnings	<u>\$ 17,310,192</u>	<u>\$ 833,257</u>	<u>\$ 19,322,651</u>	<u>\$ 2,320,085</u>
Earnings per share (Note 16)				
Basic	<u>\$0.35</u>	<u>\$0.02</u>	<u>\$0.40</u>	<u>\$0.06</u>
Fully diluted	<u>\$0.35</u>	<u>\$0.02</u>	<u>\$0.39</u>	<u>\$0.06</u>

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Periods Ended September 30, 2004 and December 31, 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

	Share Capital	Cumulative Foreign Currency Contributed Surplus	Translation Account	Retained Earnings	Total
Balance, December 31, 2002	\$ 34,046,472	\$ 159,000		\$ 13,768,431	\$ 47,973,903
Net earnings for the period				9,359,976	9,359,976
Premium on share redemption	(723,849)			(423,626)	(1,147,475)
Stock issued to purchase assets	13,224,800				13,224,800
Conversion of second mortgage	2,000,000				2,000,000
Current year foreign currency reserve for foreign self sustained operations			(1,361,335)		(1,361,335)
Balance, December 31, 2003	48,547,423	159,000	(1,361,335)	22,704,781	70,049,869
Net earnings for the period				19,322,651	19,322,651
Premium on share redemption	(603,860)			(99,292)	(703,152)
Stock issued on exercise of options	45,000				45,000
Stock issued to effect purchase of assets	250,000				250,000
Stock issued to effect private placement	6,830,000				6,830,000
Stock issued to effect conversion of debt to	5,000,000				5,000,000
Stock issued under Dividend Reinvestment Plan	2,786,059				2,786,059
Dividends				(3,267,659)	(3,267,659)
Current period foreign currency reserve for foreign self sustained operations			(209,848)		(209,848)
Balance, September 30, 2004	<u>\$ 62,854,622</u>	<u>\$ 159,000</u>	<u>\$ (1,571,183)</u>	<u>\$ 38,660,481</u>	<u>\$ 100,102,920</u>

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

CONSOLIDATED INTERIM STATEMENT OF FUNDS FROM OPERATIONS

(Unaudited - Prepared by Management - All figures in Canadian Dollars)

	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	\$ 17,310,192	\$ 833,257	\$ 19,322,651	\$ 2,320,085
Adjustments for:				
Unrealized valuation changes	(19,904,000)		(20,034,000)	(41,046)
Realized valuation changes	(149,497)		(149,497)	
Future income taxes	4,895,410	584,914	5,744,191	1,574,770
Stock option compensation				
Share in income on equity accounted investment		(17,752)		(58,385)
Foreign exchange loss	20,200	45,888		125,594
Funds from operations	\$ 2,172,305	\$ 1,446,307	\$ 4,883,345	\$ 3,921,018

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

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(Unaudited - Prepared by Management - All figures in Canadian Dollars)

	Three Mo. Ended September 30 2004	Three Mo. 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	2,172,305	1,446,307	4,883,345	3,921,018
Change in non-cash working capital				
Receivables (474,655)	(836,087)	2,651,688	(56,775)	
Prepays (681,194)	204,588	(248,156)	(89,538)	
Accounts payable	2,731,316	1,010,989	287,819	3,052,820
Deferred rental receipts	(186,982)		(460,729)	
Security deposits & prepaid rents	143,407	(518,544)	(1,130)	472,250
Net cash from operating activities	<u>4,228,547</u>	<u>4,342,284</u>	<u>4,562,992</u>	<u>6,290,239</u>
Investing activities				
Investment in property & equipment (88,758,537)	(11,498,564)	(2,866,966)	(35,142,517)	
Investment in Cedar Income Fund, Ltd.				(1,384,392)
Proceeds on disposal of assets	1,270,970		1,270,970	
Proceeds on disposal of portfolio investments				200,694
(Increase) decrease in portfolio investments				
Net cash used in investing activities (89,942,235)	<u>(10,227,594)</u>	<u>(2,866,966)</u>	<u>(33,871,547)</u>	
Financing activities				
Increase (decrease) in demand loans payable	(4,953,127)	(1,048,503)	7,336,063	3,579,923
Increase (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 (828,201)		(320,883)	(703,152)	
Issue of common shares	11,476,140		11,521,140	
Dividends paid	(481,600)		(481,600)	
Payable to related companies		(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>70,938,086</u>
Decrease in cash and cash equivalents (12,713,910)	(835,062)	(3,092,892)	(2,111,193)	
Cash and cash equivalents, beginning of period	<u>1,937,250</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)

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

1. Basis of financial statement presentation

These financial statements have been prepared under International Financial Reporting Standards ("IFRS") as Homburg Invest Inc. (the "Company") has a significant number of European shareholders who normally receive financial statements prepared under IFRS. 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 IFRS and Canadian GAAP statements, are that while the IFRS statements reflect the investment property at fair market value and are without depreciation charges, the Canadian GAAP financial statements record the investment property 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 IFRS.

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 Boulevard, 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

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

Consolidation

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.

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.

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. The effective date of the revaluation is September 30, 2004.

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, financing costs and interest on debt specific to and secured by such properties.

Capitalization of costs to properties 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 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.

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).

Use of estimates

The preparation of financial statements in conformity with International Financial Reporting 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.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

3. Summary of significant accounting policies (cont.)

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 exchange 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

Revenue recognition policy

Effective January 1, 2004, the Company is applying Section 1506 of the CICA Handbook which required that revenue on leased property be recognized 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 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 current period 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. Investment property

	September 30 2004	December 31 2003 (Audited)
Balance, beginning of period	\$ 270,569,497	\$ 135,427,888
Deductions:		
Disposals	(916,316)	(1,300,000)
Additions:		
Acquisition through purchases, plus capitalized costs on acquisition	28,306,305	115,698,150
Capitalized costs of properties	7,025,067	13,622,069
Gain on fair value adjustment	20,034,000	7,121,390
Balance, end of period	<u>\$ 325,018,553</u>	<u>\$ 270,569,497</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 totalling \$17,000,000 the issue of \$250,000 in common stock, cash of \$17,175,477.

In 2003 capital assets were acquired at an aggregate cost of \$128,020,219. The acquisitions were financed by new debt of \$17,101,000, the assumption of debt totalling \$25,349,694, the issue of \$13,224,800 in common stock, and cash of \$72,344,725.

The Company is developing a 124,500 square foot building in Calgary, Alberta scheduled for completion and leasing 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.

If the property had not been revalued, the carrying amount of property at depreciated historic cost would be \$279,625,275 (December 31, 2003 - \$247,643,426).

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

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.

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 June 30, 2004 was \$885,755 (December 31, 2003 - \$804,000).

8. Mortgages payable

	September 30 2004	December 31 2003 (Audited)
Fixed rate mortgages, various maturities from 2004 to 2013, weighted average interest rate of 6.98% as at June 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 totalling \$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 2004	December 31 2003 (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.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

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.

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 \$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. 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

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	<u>Amount</u>
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 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 shares 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.

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. This program was cancelled by the shareholders of the Company at its Annual General Meeting June 18, 2004.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

12. Capital stock (cont.)

	September 30		December 31	
	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
	<u>462,607</u>		<u>837,573</u>	

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 period ending on those dates is presented below.

	September 30		December 31	
	2004		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	<u>2,547,500</u>	\$ 1.16	<u>2,755,500</u>	\$ 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
<u>1,534,689</u>	February 8, 2002	February 7, 2007	\$ 1.26
<u>2,547,500</u>			

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

13. 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:

	September 30 2004	December 31 2003 (Audited)
Earnings before income taxes	<u>\$ 25,541,842</u>	<u>\$ 12,961,839</u>
Combined Canadian basic federal and provincial income tax rate	37.00 %	40.12 %
Less: reduction in rates based on enacted or substantively enacted tax laws at year end date	_____ %	_____ 2.00
	<u>37.00 %</u>	<u>38.12 %</u>
Income taxes based on combined Canadian basic federal and provincial income tax rate	\$ 9,450,481	\$ 4,941,053
Increase (decrease) in income taxes resulting from:		
Large corporation tax	475,000	579,000
Permanent adjustment on unrealized valuation increase	<u>(3,706,290)</u>	<u>(1,508,190)</u>
	<u>\$ 6,219,191</u>	<u>\$ 4,011,863</u>
Income taxes:		
Large corporation taxes	\$ 475,000	\$ 579,000
Future income taxes	<u>5,744,191</u>	<u>3,432,863</u>
	<u>\$ 6,219,191</u>	<u>\$ 4,011,863</u>

Future income taxes represent temporary timing differences resulting from claiming income tax depreciation on the Company's fixed assets and the income tax impact of fair value changes under International Financial Reporting Standards. The accumulated future income tax liability at September 30, 2004 was \$22,642,238 (December 31, 2003 - \$16,898,047).

14. Financial instruments and risk management

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 INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

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

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.

16. Earnings 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 periods ended September 30, 2004 and 2003 were 47,075,202 and 41,022,593 respectively. On a diluted basis, the weighted average number of common shares outstanding was 47,337,585 for 2004 and 41,122,826 for 2003.

The dilution of 262,383 (September 30, 2003 - 848,507) pertains to convertible second mortgages exchangeable for \$NIL (September 30, 2003 698,273) shares, and the exercise options and the share buy back under the Treasury Method for 262,383 (September 30, 2003 - 150,233) shares.

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September 30, 2004 and 2003 (Unaudited - Prepared by Management - All figures in Canadian Dollars)

16. Earnings per share (cont.)

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.

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 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 liabilities

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.

19. Supplemental cash flow information

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

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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>3,616,393</u>	<u>282,723</u>	<u>5,200,092</u>	<u>891,814</u>	<u>9,991,022</u>
Net operating income	<u>\$ 8,332,019</u>	<u>\$ 2,010,880</u>	<u>\$ 6,767,322</u>	<u>\$ 950,316</u>	<u>\$ 18,060,537</u>

Nine Months Ended

September 30, 2003	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 9,220,453	\$ 2,160,344	\$ 9,459,058	\$ 1,953,709	\$ 22,793,564
Operating expenses	<u>3,313,046</u>	<u>270,653</u>	<u>4,035,585</u>	<u>959,614</u>	<u>8,578,898</u>
Net operating income	<u>\$ 5,907,407</u>	<u>\$ 1,889,691</u>	<u>\$ 5,423,473</u>	<u>\$ 994,095</u>	<u>\$ 14,214,666</u>

Nine Months Ended

September 30, 2004	CANADA			US	Total
	West	Central	Atlantic		
Property revenue	\$ 7,356,266	\$ 2,871,113	\$ 13,775,000	\$ 4,049,180	\$ 28,051,559
Operating expenses	<u>2,483,795</u>	<u>94,187</u>	<u>5,204,819</u>	<u>2,208,221</u>	<u>9,991,022</u>
Net operating income	<u>\$ 4,872,471</u>	<u>\$ 2,776,926</u>	<u>\$ 8,570,181</u>	<u>\$ 1,840,959</u>	<u>\$ 18,060,537</u>

Nine Months Ended

September 30, 2003	CANADA			US	Total
	West	Central	Atlantic		
Property revenue	\$ 6,909,741	\$ 1,162,451	\$ 11,603,879	\$ 3,117,493	\$ 22,793,564
Operating expenses	<u>2,446,604</u>	<u>270,653</u>	<u>4,713,256</u>	<u>1,419,038</u>	<u>8,578,898</u>
Net operating income	<u>\$ 4,463,137</u>	<u>\$ 1,162,451</u>	<u>\$ 6,890,623</u>	<u>\$ 1,698,455</u>	<u>\$ 14,214,666</u>

September 30, 2004

	Retail	Industrial	Office	Residential	Total
Investment property	\$ 128,327,483	\$ 26,139,438	\$ 144,982,407	\$ 25,569,225	\$ 325,018,553
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	\$ 97,842,079	\$ 26,139,438	\$ 128,197,900	\$ 18,390,080	\$ 270,569,497
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	\$ 99,967,219	\$ 49,821,623	\$ 134,848,276	\$ 40,381,435	\$ 325,018,553
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	\$ 88,667,147	\$ 24,670,000	\$ 120,080,738	\$ 37,151,612	\$ 270,569,497
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

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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>

22. Staff costs

The Company has a Management Agreement with a related party (Note 15) and therefore has no employees.

23. 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 2004	December 31 2003 (Audited)
Assets		
Cash	\$ 96,747	\$ 142,684
Receivables	115,099	105,437
Prepaid	127,379	76,542
Property and equipment	<u>7,940,505</u>	<u>7,906,131</u>
	<u>\$ 8,279,730</u>	<u>\$ 8,230,794</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>
	September 30 2004	September 30 2003
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>



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