

**International
Financial
Reporting
Standards**

Homburg Invest Inc.

HOMBURG

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

June 30, 2005

CONTENTS

Six Months Ended June 30, 2005

	<u>Page</u>
Letter to Shareholder	1-2
Management's Discussion and Analysis of Operations and Financial Condition	3-10
Consolidated Interim Balance Sheet	11
Consolidated Interim Statement of Earnings	12
Consolidated Interim Statement of Changes in Equity	13
Consolidated Interim Statement of Cash Flows	14
Notes to International Financial Reporting Standards (IFRS) Consolidated Interim Financial Statements	15-29

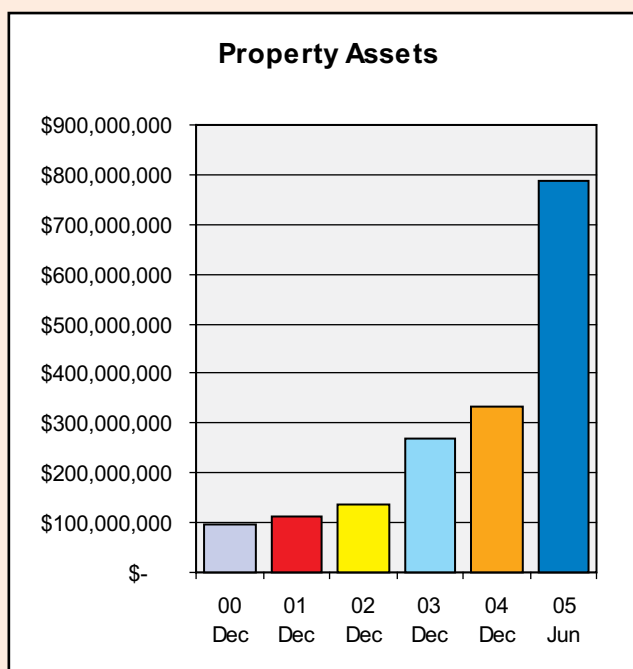


July 28, 2005

Dear Shareholder:

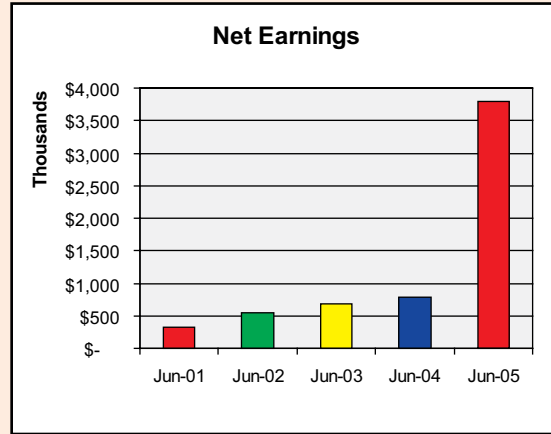
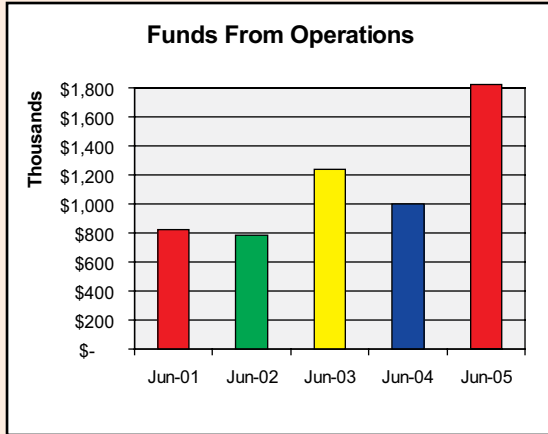
Enclosed herewith you will find a copy of your Company's unaudited second quarter financial statements prepared in accordance with **International Financial Reporting Standards** and Management's Discussion and Analysis of Operations and Financial Condition for the six months ended June 30, 2005. These items will also be available and may be downloaded from our website at www.homburginvest.com.

During the second quarter of 2005 the Company successfully completed the largest transaction in its history. On June 1st and 2nd we purchased 11 properties in various locations in Germany and The Netherlands. The total purchase price was approximately \$494 million and resulted in the addition of approximately 4.8 million square feet of quality real estate to the portfolio. An important part of the acquisition was the issuance, as partial consideration, of 21,677,487 Class A Subordinate Voting Shares of the Company. This represents an addition of \$65 million to the capital stock of the Company.



Just as our property assets have grown, the ability to manage the properties and maximize the return to shareholders is demonstrated in the following chart which spells out the funds generated from operations and our net earnings over the last five quarters ended June 30.

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From a numerical prospective the funds from operations and net earnings generated in the second quarter of each year has been:

	<u>Funds from Operations</u>	<u>Net Earnings</u>
June 2001	\$901 thousand	\$326 thousand
June 2002	\$781 thousand	\$544 thousand
June 2003	\$1,239 thousand	\$692 thousand
June 2004	\$1,001 thousand	\$783 thousand
June 2005	\$1,826 thousand	\$3,794 thousand

The funds from operations do not include the free funds generated from the sale of the Vintage Towers in Calgary of approximately \$49 million after the payout of the first mortgage on the properties. When measured on the basis of asset growth, cash generated and net earnings, this has been our best quarter ever. As the revenue stream from the new German/Netherlands portfolio comes into income all aspects of our operations are enhanced. Please review the attached management discussion and analysis for full details of our operation results.

I am certain you will find it informative.

Yours very truly,

“Signed”

 Richard Homburg, Phzn., D. Comm.
 Chairman and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Six Months Ended June 30, 2005

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

July 28, 2005

Overall Performance and Selected Interim Information

Homburg Invest Inc. ("Homburg Invest" or the "Company") is a public real estate company owning 94 properties with a fair value of \$748.7 million and 8.7 million square feet of space in four main asset classes: office, retail, industrial, and multi-family residential. As well the Company has 6 properties held for development or under construction with a value to date of \$26.9 million and two property acquisitions with pending closings on which \$3.0 million has been expended to date and two US properties are in the process of being sold.

Properties Owned

Property Type	June 30, 2005				December 31, 2004			
	No. of Properties	Net Book Value (Thousands)	No. of Units	Gross Square Footage	No. of Properties	Net Book Value (Thousands)	No. of Units	Gross Square Footage
Office	31	\$204,930		1,773,366	31	\$148,264		1,237,208
Retail	37	136,003		1,621,567	36	128,561		1,520,126
Residential	10	19,877	325	348,408	11	19,616	352	367,023
Industrial	16	387,936		4,850,933	8	26,510		624,080
SUB-TOTAL	94	748,746	325	8,594,274	86	322,950	352	3,748,437
Properties Under Development ^(a)	3	12,621	110	248,000	1	1,335		139,200
Properties Held for Development Owned ^(b)	3	14,234		-	1	8,752		-
Pending ^(c)	2	2,952		-	88	333,037		3,887,637
Properties Held for Resale ^(d)	2	7,526		68,432	-	-		-
TOTAL	104	\$778,553	425	8,910,716	88	\$333,037	352	3,887,637

(a) Construction in progress – 75,000 square foot office tower and 110 unit condominium towers in Calgary, Alberta and 41,000 square foot office/warehouse building in suburban Calgary. Completion on these projects is expected in 2006.

(b) Properties held for development include 146 acres of residential land on the outskirts of Calgary, Alberta purchased for residential and single family development, and two sites within the City of Calgary and the City of Grande Prairie, Alberta upon which significant condominium projects are to commence as soon as all design and development agreements are in place and approved.

(c) Properties pending to close include 247 acres of industrial land on the outskirts of Calgary, Alberta and a prime commercial property in downtown Calgary which is to be redeveloped into two office towers. These properties are awaiting final development agreements and are expected to close before the end of 2005.

(d) In the third quarter, it is anticipated that two US properties will be sold for total proceeds of \$7.5 million. The \$1.1 million gain to be realized has been reflected in the second quarter earnings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Results from Operations

(In thousands except for per share calculations)

	3 Months Ended June 30 2005	3 Months Ended June 30 2004	6 Months Ended June 30 2005	6 Months Ended June 30 2004
Net earnings	\$3,794	\$783	\$6,127	\$2,012
Earnings per share – basic and diluted	\$0.06	\$0.02	\$0.10	\$0.04
Funds from operations	\$1,826	\$1,001	\$2,296	\$2,461
Funds from operations per share – basic and diluted	\$0.03	\$0.02	\$0.04	\$0.05

Net earnings for the second quarter of 2005 were \$3.8 million or \$0.06 per share compared to \$783 thousand in the second quarter of 2004 or \$0.02 per share. For the six-month period ended June 30, 2005, net earnings are \$6.1 million or \$0.10 per share compared to \$2.0 million or \$0.04 per share in 2004. The effect on net earnings is directly related to the sale of the Vintage Towers in the second quarter which contributed \$4.5 million to earnings before income taxes. The actual gain was \$14.1 million of which \$9.6 million had previously been recorded as “unrealized valuation changes” in prior period financial statements. Against this gain, unusual expenses incurred in the second quarter including \$1.1 million in stock option compensation and a \$0.6 million interest swap adjustment to market expense recorded on a derivative instrument on the debt on the Bochum, Germany property. While none of this \$1.7 million in expenses resulted in a cash outlay to the Company, they directly impact earnings in the quarter and year to date results.

Funds from operations for the second quarter of 2005 was \$1.8 million or \$0.03 per share compared to funds from operations of \$1.0 million in 2004 or \$0.02 per share. The stability of cash flow year over year is very evident in the real estate operations. Our major European portfolio which was acquired in June 2005 will positively impact future cash flows and earnings when they come on stream over the next four quarters.

Office Portfolio

	3 Months Ended June 30 2005	3 Months Ended June 30 2004	6 Months Ended June 30 2005	6 Months Ended June 30 2004
Revenue	\$4,883	\$4,040	\$8,965	\$8,214
Net operating income	\$3,690	\$1,929	\$4,873	\$4,326

Homburg Invest's office portfolio consists of 31 small to medium sized office buildings in Atlantic Canada, Alberta, British Columbia, the western United States, Germany and The Netherlands with a total area of 1.8 million square feet. The improvement in second quarter 2005 revenue of 20.9% and net operating income of 91.1% over 2004 reflects the acquisition of new office buildings in Houten, The Netherlands and Bochum, Germany late in quarter 2 and the lease up of vacant space in various existing buildings. This segment is expected to perform very strongly moving forward.

Overall occupancy in the office portfolio was 97.07% at June 30, 2005.

Retail Portfolio

	3 Months Ended June 30 2005	3 Months Ended June 30 2004	6 Months Ended June 30 2005	6 Months Ended June 30 2004
Revenue	\$3,897	\$3,869	\$8,077	\$7,749
Net operating income	\$2,683	\$2,686	\$5,594	\$5,415

Homburg Invest's retail portfolio consists of 37 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 1.6 million square feet. The retail rental revenue and net operating income for the second quarter on the properties held on June 30, 2005 have remained steady in relation to the same period in 2004.

Overall occupancy in the retail portfolio was 95.99% at June 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Residential Portfolio

	3 Months Ended June 30 2005	3 Months Ended June 30 2004	6 Months Ended June 30 2005	6 Months Ended June 30 2004
Revenue	\$625	\$618	\$1,252	\$1,224
Net operating income	\$350	\$248	\$644	\$576

Homburg Invest's residential portfolio is primarily located in Nova Scotia and New Brunswick and consists of 10 properties with 325 units as at June 30, 2005. The residential portfolio revenue stream remains stable while net operating income for the second quarter of 2005 was \$350 thousand compared to \$248 thousand in the same period in 2004. Quarter three's revenue stream will reflect a reduction due to the sale of our 27 unit Valley Hi property in Colorado late in June 2005.

The residential portfolio maintained a high overall average occupancy rate during 2005 and at June 30, 2005 the occupancy rate was 97.23%.

Industrial Portfolio

	3 Months Ended June 30 2005	3 Months Ended June 30 2004	6 Months Ended June 30 2005	6 Months Ended June 30 2004
Revenue	\$2,949	\$783	\$3,718	\$1,541
Net operating income	\$2,732	\$692	\$3,388	\$1,343

Homburg Invest's industrial portfolio consists of 16 industrial buildings located in Canada, the US, Germany and The Netherlands with a total area of 4.9 million square feet. The Company's industrial buildings generated \$3.0 million total rental revenue in the second quarter of 2005 and \$2.7 million in net operating income compared to \$783 thousand total rental revenue in 2004 and \$692 thousand in net operating income. This represents increases of 276.6% in revenue and 294.8% in net operating income. The improvement in 2005 is directly related to the industrial properties acquired in June 2005 and the negotiation of new long-term leases on certain commercial properties.

Overall occupancy in the industrial portfolio was 98.95% at June 30, 2005

Other Income

During the second quarter of 2005, Homburg Invest generated \$5.1 million in other income versus \$159 thousand in 2004. The income generated in 2005 came primarily from the sale of the Vintage Towers in Calgary. Gross proceeds on the transaction were \$62.1 million in June 2005. After factoring in all costs of disposition on unrealized valuation changes previously taken, the Company realized a net gain of \$4.5 million and a loss of \$0.1 million on the sale of an apartment building. \$730 thousand in other income relates to net gains to be realized on the sale of 2 properties in the United States which will close in the third quarter. The balance of the other income of \$30 thousand related to the gains realized on portfolio investments.

Interest Expense

Interest expense for the second quarter was \$6.2 million in 2005, an increase of \$2.5 million over 2004. This increase is directly attributable to the HMB4 and HMB5 Mortgage Bonds issued in December 2004 and the new mortgages taken over related to the German and The Netherlands properties acquired in June 2005. The Company's weighted average interest rate on real estate asset mortgage debt decreased to 4.55% from 7.04% at December 31, 2004. For the quarter ended June 30, 2005, Homburg Invest had total interest coverage of 3.54 to 1 after considering the gain on the sale of the fixed assets and a debt to equity ratio of 3.80 to 1.

Interest Recovery

In December 2004 the Company received approximately \$62 million in HMB4 and HMB5 mortgage Bond cash proceeds (net of issue costs) for the purpose of acquiring new properties for development and paying down short term debt. In quarter 1, 2005, \$28 million of the cash was used to acquire new properties and pay down debt and the remaining \$34 million was used to purchase new assets in quarter 2. The total expense contained in the income statement for quarter 2 related to the unexpended cash position of the bonds for which the interest costs have been expensed under Canadian GAAP amounted to \$496 thousand. To the extent that the Company was unable to generate income in the quarter through investing the excess funds in portfolio stocks and bank instruments, the asset manager, Homburg Canada Incorporated, agreed to indemnify the Company for any costs it was required to expense due to it being unable to close on its capital commitments. After considering the \$30 thousand investment income earned while the cash was available, the recovery from the asset manager amounted to \$466 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

General and Administration

General and administration expenses totalled \$809 thousand in the second quarter of 2005 compared to \$700 thousand in 2004. The increase in general and administration expenses over 2004 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.

Financial Condition

Assets

Total assets grew from \$387.7 million at December 31, 2004 to \$831.4 million at June 30, 2005. The table below summarizes Homburg Invest's asset base.

	June 30 2005 (Millions)	December 31 2004 (Millions)
Cash and cash equivalents	\$ 31.7	\$ 41.7
Receivables	3.6	7.4
Long term investment	1.1	1.1
Investment and Development Properties	778.5	333.1
Properties held for resale	7.5	-
Intangible asset	7.8	-
Other assets	<u>1.2</u>	<u>4.4</u>
	<u>\$ 831.4</u>	<u>\$387.7</u>

Receivables

Receivables trade of \$3.4 million (December 31, 2004 - \$2.6 million) consists of amounts due from tenants which arise from the normal course of operations. \$239 thousand in mortgage bonds proceeds for HMB4 and HMB5 were outstanding at June 30, 2005 and were collected subsequent to June 30, 2005.

Long Term Investment

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, the Chairman & CEO of Homburg Invest sits as a Director on the Board of Cedar.

Intangible Assets/Liabilities

The business combination accounting relating to the recording of the German/Netherlands property transactions requires that the asset values be allocated to the physical assets acquired and intangible assets/liabilities resulting from an evaluation of the lease contracts compared to current market rental rates at the time of the acquisition. At May 31, 2005 it was determined that \$7.8 million of the purchase price related to above market rental contracts and \$.7 million related to amounts below market rental contracts and are recorded as respective assets and liabilities and will be amortized over the term of the appropriate leases.

Other Assets

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

Capital Structure

The table below summarizes Homburg Invest's capital structure.

	June 30 2005 (Millions)		December 31 2004 (Millions)	
Mortgages and term loans payable	\$ 445.2	57.9%	\$117.9	33.0%
Mortgage bonds payable	122.9	16.0%	135.8	38.0%
Currency guarantee payable	9.3	1.2%	-	-
Derivative Instrument Liability	<u>5.2</u>	<u>0.7%</u>	<u>-</u>	<u>-</u>
	582.6	75.8%	253.7	71.0%
Shareholders equity	<u>185.6</u>	<u>24.2%</u>	<u>103.4</u>	<u>29.0%</u>
	<u>\$ 768.2</u>	<u>100.0%</u>	<u>\$351.1</u>	<u>100.0%</u>

Debt on Real Estate Assets

Mortgages payable on revenue producing properties increased by \$337.6 million in the second quarter of 2005 with the proceeds used for new acquisitions in the period. Also in the second quarter, \$10.5 million was applied against mortgage debt as required under normal principal repayments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

At June 30, 2005, the Company had two acquisition loan facilities totaling \$18.5 million. At quarter end no amount was outstanding against these lines.

Currency guarantee payable

Subsequent to the issuance of the Series 1, 2, 4, and 5 mortgage bonds, the Canadian dollar has strengthened against the Euro to the extent of \$9.2 million at June 30, 2005, up from a negative 3.6 million as at December 31, 2004. This improvement 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.

Intangible Assets/Liabilities

The business combination accounting relating to the recording of the German/Netherlands property transactions requires that the asset values be allocated to the physical assets acquired and intangible assets/liabilities resulting from an evaluation of the lease contracts compared to current market rental rates at the time of the acquisition. At May 31, 2005 it was determined that \$7.8 million of the purchase price related to above market rental contracts and \$.6 million related to amounts below market rental contracts and are recorded as respective assets and liabilities and will be amortized over the term of the appropriate leases.

Derivative Instrument Liability

The Bochum, Germany property issued an interest swap derivative instrument on June 1, 2004. At the time of acquisition by Homburg Invest Inc., interest rates in Germany decreased such that the fair market value of the debt related to the interest swap increased by €0 million (\$4.6 million) at the date of acquisition. This liability was recorded as a derivative instrument liability with an offsetting increase in the assets acquired. For the month of June there was a further reduction in interest rates in Germany which resulted in a further charge to the income statement in the second quarter of \$0.6 million. The derivative instrument liability of \$5.2 million will be brought back into income over the remaining life of the fixed debt to October 2014.

Shareholders Equity

Homburg Invest's shareholders' equity increased from \$113.0 million at March 31, 2005 to \$185.6 million at June 30, 2005. During the second quarter, 50 thousand new shares were issued from treasury for net proceeds to the Company of \$45 thousand and 23.4 million shares with a value assigned of \$70.1 million were issued as part of the consideration for the German/Netherlands transaction. Of the shares issued \$5.1 million of the consideration is held in escrow pending finalization of financing on one property in The Netherlands and this consideration has been deducted from the stated capital. It is anticipated that this property acquisition will be finalized in the third quarter.

Also as part of the German/Netherlands transaction 5.33% notes payable in the amount of \$9.2 million were issued to the vendors as part consideration. These notes are convertible by the Company into shares on May 31, 2006 and therefore have been classified as part of shareholder equity. \$40 thousand in interest costs related to these notes has been recorded as a decrease in retained earnings. During the second quarter, \$1.1 million in employee stock based compensation expense was transferred into contributed surplus. Net earnings for the period amounted to \$3.8 million.

The Company's US operations, headquartered in Colorado Springs, Colorado and the German/Netherlands operation, headquartered in Soest, The Netherlands, are considered to be self sustaining and they use the US and Euro currency for recording substantially all transactions. The accounts are translated on the consolidated books of the Company using the current rate method, whereby assets and liabilities are translated at period end exchange rates while revenues and expenses are converted using quarterly translation rates. Gains or losses resulting from the currency translations of the subsidiaries are deferred and included in the cumulative foreign currency translation account within shareholders' equity. At June 30, 2005, this account amounted to currency losses totalling \$8.3 million, up from \$1.9 million at March 31, 2005.

On April 1, 2005 at the Annual Shareholders Meeting the shareholders agreed to convert the common shares outstanding into 50% Class A Subordinated Voting Shares (1 vote per share) and 50% Class B Multiple Voting Shares (25 votes per share). All new issues of shares after April 1, 2005 are Class A Subordinate Voting Shares. At June 30, 2005 there were 53.957 million Class A shares and 30.587 million Class B shares outstanding.

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, and capital expenditures. 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 \$53.5 million in the second quarter of 2005. These acquisitions were financed with acquisition lines of credit and corporate 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	\$577,353	\$96,027	\$33,156	\$75,067	\$373,103
Capital lease obligations	NIL	NIL	NIL	NIL	NIL
Operating leases	\$443	\$118	\$218	\$107	NIL
Purchase obligations	NIL	NIL	NIL	NIL	NIL
Other long term obligations	NIL	NIL	NIL	NIL	NIL
Total contractual obligations	\$577,796	\$96,145	\$33,374	\$75,174	\$373,103

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 June 30, 2005 funds from operations were \$1.3 million and the free cash generated from the sale of the Vintage Towers after payment of the first mortgage and all closing costs was approximately \$49.0 million. Homburg Invest believes that its cash on hand, its funds from operations, its mortgage bond proceeds and \$18.5 million in credit lines available to it will be sufficient to fund near-term, nondiscretionary costs. The Company continues to manage its capital resources to maximize its opportunities for growth.

At the present time there are no commitments for capital expenditures for property acquisitions other than the pending closings for the two Calgary properties noted previously which will have a total acquisition cost of \$35 million and which will be funded from the mortgage bond proceeds on hand. The three properties currently under development will be funded through bank construction loans and Homburg Mortgage Bonds.

Proposed Transactions

The Board of Directors of Homburg Invest Inc. has approved the making of an unsolicited offer for the shares of DIM Vastgoed N.V., a company listed on the Euronext Amsterdam Stock Exchange which owns 16 retail properties in southeastern United States. The offer is to be structured as either all cash, cash and shares or shares only and is currently proceeding in an orderly manner. It is not, however, possible to determine the cash requirement to finalize this acquisition at this time and the issuance of shares related to the transaction is subject to regulatory approval in Canada and Europe.

The Board of Directors has also approved the acquisition of a portfolio of commercial and residential real estate in The Netherlands and Germany. The portfolio consists of 4 large commercial and retail properties and approximately 8,500 residential units. The total acquisition cost will be approximately \$768 million. Approximately \$588 million in financing is being arranged with a group of European lending institutions and \$180 million will be placed in the European equity market by selected European investment bankers. The transaction is expected to close on or before November 15, 2005 and is subject to full due diligence being completed to the Company's satisfaction, required regulatory approvals in Canada and Europe and the final approval of the Company's Board of Directors.

The Company has entered into an agreement to purchase a property in Germany for \$13 million subject to satisfactory financing being arranged. The Company has issued \$5 million in Class A Subordinate Voting Shares that are held in escrow and will be released to the vendor pending completion of the transaction.

The Company has entered into agreements to purchase a property in Montreal, Quebec for \$1.1 million and one in Charlottetown, Prince Edward Island for \$690 thousand. These acquisitions are scheduled to close in the third quarter and will be paid for by cash.

On July 1, 2005 Homburg Invest Inc., through Homburg ShareCo Inc., its wholly owned subsidiary finalized two bond issues in the European market. These issues raised a total of approximately €62.460 million (approximately CDN \$98 million). These funds will be used in part for the equity component of the pending Calgary acquisitions and the Citadel West/Castello Towers redevelopment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

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 in the second quarter of 2005 versus 2004:

	June 30 2005 Quarter	June 30 2004 Quarter
Rental revenue earned	\$ (57)	\$ (106)
Interest recovery	\$ (466)	\$ NIL
Asset and construction management fees incurred	\$ 835	\$ 832
Property management fees paid	\$ 412	\$ 338
Insurance incurred	\$ 87	\$ NIL
Service fees paid	\$ 63	\$ 50
Property acquisition fees paid	\$ 15,297	\$ NIL
Mortgage bond guarantee fees paid	\$ 867	\$ 352
Demand loan interest and fees accrued	\$ NIL	\$ 55

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 \$NIL (June 30, 2004 - \$47,000) were purchased from a firm and a corporation of which one of the Company's directors are affiliated in the second quarter of 2005.

d) The Company has entered into a guarantee arrangement for the principal and interest amounts, of the Mortgage Bonds payable to maturity, 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, 2.0% on the Series 2 Bonds, and 1.6% on the Series 4 and Series 5 Bonds.

e) Included in accounts payable is a mortgage bond syndication fee of \$NIL (December 31, 2004 - \$1,316), mortgage bond guarantee fees of \$1,461 (December 31, 2004 - \$561) and management fees of \$109 (December 31, 2004 - \$35) payable to companies commonly controlled by the Chairman and Chief Executive Officer.

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.

Second Quarter 2005

The second quarter of 2005 saw the most significant growth in asset base and equity in the Company's history. As well, the Company's profit in the quarter was the highest on record. These developments are part of the strategic plan of Homburg Invest to enhance shareholder value. The operating results were previously described under the heading "results from operations". The operating results reflect the growth in a stable leasing revenue stream and funds from operations which the Company is able to achieve. These results will be significantly more pronounced as this full effect on the European property acquisitions which took place effective June 1, 2005, come on stream.

Economic and Industry Factors

In the second quarter of 2005, the economic and industry factors affecting the Company are substantially unchanged from the MD&A report issued for the year ended December 31, 2004. The reader is therefore encouraged to review the December 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 June 30, 2005, Homburg Invest Inc. was authorized to issue an unlimited number of Classes a Subordinate Voting Shares, an unlimited number of Class B Multiple Voting Shares, an unlimited number of Class a Preferred Shares, issuable in series, and an unlimited number of Class B Preferred Shares, issuable in series. As at June 30, 2005, 53.957 million Class a Subordinate Voting Shares and 30.587 million Class B Multiple Voting Shares are issued for a total value of \$140.0 million.

To July 28, 2005 there have been no changes to the issued capital of the Company.

The Company continues to release its results under Canadian Generally Accepted Accounting Principles ("GAAP") as well as under International Financial Reporting Standards ("IFRS"). 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, D. Comm.
Chairman and CEO

"Signed"

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

CONSOLIDATED INTERIM BALANCE SHEET

CAD thousands except per share amounts (Unaudited)

	June 30 2005	December 31 2004
Assets		(Audited)
Cash and cash equivalents (Note 8)	\$ 31,700	\$ 41,722
Receivables and other (Note 10)	4,810	8,189
Long term investment (Note 11)	1,040	1,086
Intangible asset (Notes 3 & 9)	7,774	
Properties held for resale (Note 20d)	7,526	
Development properties (Notes 3 & 7)	29,807	10,087
Investment properties (Notes 3 & 6)	748,746	322,950
Currency guarantee receivable (Note 14)		3,626
	\$ 831,403	\$ 387,660
Liabilities		
Accounts payable and other liabilities (Note 13)	\$ 10,771	\$ 7,262
Derivative instrument liability (Note 3 & 17)	5,157	
Currency guarantee payable (Note 14)	9,262	
Intangible liability (Notes 3 & 9)	615	
Mortgage bonds payable (Note 14)	122,913	135,801
Mortgages payable (Note 12)	445,178	117,941
Deferred income taxes (Note 16)	51,908	23,173
	645,804	284,177
Shareholders' Equity (Note 15)	185,599	103,483
	\$ 831,403	\$ 387,660
Commitments (Note 20)		
Contingent liability (Note 21)		
Subsequent events (Note 22)		

Approved by the Board, July 28, 2005

“Signed”

Richard Homburg, Phzn, D. Comm
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

CAD thousands except per share amounts (Unaudited)

	Three Mos. Ended June 30 2005	Three Mos. Ended June 30 2004	Six Mos. Ended June 30 2005	Six Mos. Ended June 30 2004
Property revenue	\$ 12,354	\$ 9,311	\$ 22,012	\$ 18,728
Realized valuation changes	4,409	130	4,516	130
Unrealized valuation changes	714		3,204	
Interest income	17	29	202	52
Foreign exchange gain				20
	<u>17,494</u>	<u>9,470</u>	<u>29,934</u>	<u>18,930</u>
Interest on mortgages and mortgages bonds	6,247	3,731	10,604	7,444
Interest recovery	(466)		(1,143)	
Property operating expenses	2,890	3,711	7,513	7,068
Stock based compensation	1,143		1,143	
General and administrative	809	700	1,741	1,357
Loss on derivative instrument	640		640	
Foreign exchange loss	227	18	316	
	<u>11,490</u>	<u>8,160</u>	<u>20,814</u>	<u>15,869</u>
Earnings before income taxes	6,004	1,310	9,120	3,061
Income taxes (Note 16)	<u>2,210</u>	<u>527</u>	<u>2,993</u>	<u>1,049</u>
Net earnings	<u>\$ 3,794</u>	<u>\$ 783</u>	<u>\$ 6,127</u>	<u>\$ 2,012</u>
Earnings per share (Note 19)				
Basic	<u>\$0.06</u>	<u>\$0.02</u>	<u>\$0.10</u>	<u>\$0.04</u>
Fully diluted	<u>\$0.05</u>	<u>\$0.02</u>	<u>\$0.10</u>	<u>\$0.04</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

CAD thousands except per share amounts - Six months ended June 30, 2005 and December 31, 2004 (Unaudited)

		Convertible Promissory Notes	Share Capital	Contributed Surplus	Cumulative Foreign Currency Translation Account	Retained Earnings	Total
Balance, December 31, 2003	\$		\$ 48,547	\$ 159	\$ (1,361)	\$ 22,705	\$ 70,050
Net earnings for the year						22,962	22,962
Premium on share redemption			(486)	(159)		(58)	(703)
Exercise of options			108				108
Purchase of assets			250				250
Private placements			11,830				11,830
Dividend Reinvestment Plan			2,786				2,786
Dividends						(3,268)	(3,268)
Current period foreign currency reserve for foreign self sustained operations					(532)		(532)
Balance, December 31, 2004			63,035		(1,893)	42,341	103,483
Net earnings for the period						6,127	6,127
Interest on convertible notes						(40)	(40)
Convertible Promissory notes		9,207					9,207
Exercise of options			673				673
Issue costs			(417)				(417)
Private placements			7,500				7,500
Acquisitions			70,112				70,112
Dividend Reinvestment Plan			4,091				4,091
Stock based compensation				1,143			1,143
Dividends						(4,775)	(4,775)
Shares in escrow (Note 20f)			(5,080)				(5,080)
Current period foreign currency reserve for foreign self sustained operations					(6,425)		(6,425)
Balance, June 30, 2005	\$	<u>9,207</u>	<u>\$ 139,914</u>	<u>\$ 1,143</u>	<u>\$ (8,318)</u>	<u>\$ 43,653</u>	<u>\$ 185,599</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 CASH FLOWS

CAD thousands except per share amounts (Unaudited)

	Three Mos. Ended June 30 <u>2005</u>	Three Mos. Ended June 30 <u>2004</u>	Six Mos. Ended June 30 <u>2005</u>	Six Mos. Ended June 30 <u>2004</u>
Net earnings	\$ 3,794	\$ 783	\$ 6,127	\$ 2,012
Adjustments for:				
Realized valuation change	(4,408)	(130)	(4,516)	(130)
Deferred rental income	179	(137)		(250)
Unrealized valuation change	(714)			(3,204)
Future income taxes	965	467	1,790	849
Stock based compensation	1,143		1,143	
Loss on derivative instrument	640		640	
Foreign exchange gain	227	18	316	(20)
Funds from operations	<u>1,826</u>	<u>1,001</u>	<u>2,296</u>	<u>2,461</u>
Change in non-cash working capital				
Receivables and other	(1,066)	768	(339)	1,073
Accounts payable and other liabilities	2,889	(2,288)	2,641	(2,589)
Net cash from (used in) operating activities	<u>3,649</u>	<u>(519)</u>	<u>4,598</u>	<u>945</u>
Investing activities				
Investment in investment properties	(53,513)	(2,158)	(54,432)	(24,254)
Proceeds on disposal of investment properties	60,840		60,840	
Proceeds on sale of portfolio investments	206		3,240	
Purchase of portfolio investments	(129)		(3,262)	
Investment in development properties	(6,652)		(22,431)	
Net cash from (used in) investing activities	<u>752</u>	<u>(2,158)</u>	<u>(16,045)</u>	<u>(24,254)</u>
Financing activities				
Increase in demand loans payable		3,412		12,289
Decrease in mortgages payable	(10,510)	(3,837)	(12,649)	(4,538)
Increase in mortgages payable for new debt	450	3,640	4,090	14,940
Proceeds from mortgage bonds			2,912	
Redemption of common shares		(353)		(703)
Issue of common shares	(72)	45	7,756	45
Dividends paid			(684)	
Net cash from (used in) financing activities	<u>(10,132)</u>	<u>2,907</u>	<u>1,425</u>	<u>22,033</u>
Decrease in cash and cash equivalents	(5,731)	230	(10,022)	(1,276)
Cash and cash equivalents, beginning of period	<u>37,431</u>	<u>1,708</u>	<u>41,722</u>	<u>3,214</u>
Cash and cash equivalents, end of period	<u>\$ 31,700</u>	<u>\$ 1,938</u>	<u>\$ 31,700</u>	<u>\$ 1,938</u>

Supplemental cash flow information (Note 23)

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

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

1. Basis of financial statement presentation

These consolidated 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 Toronto Stock Exchange (“TSX”). The Class A subordinate voting shares trade under the symbol “HII.SV.A”, and the Class B multiple voting shares trade as “HII.MV.B”.

The principal place of business is 1741 Brunswick Street, Suite 600, Halifax, Nova Scotia, Canada.

The Company and its subsidiaries lease, build and sell commercial and residential real estate interests located in Canada, the United States of America, Germany, and The Netherlands.

3. Summary of significant accounting policies

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

a) General and consolidation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards. The Company’s accounting policies and its financial disclosures are in accordance with the recommendations of the International Accounting Standards Board (IASB).

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 fifty-three wholly owned limited partnerships and seven partially owned limited partnerships, which operate commercial and residential rental properties, are accounted for using proportionate consolidation. Four of these wholly owned limited partnerships own corporate structures.

b) Properties

i) Investment properties held are carried at fair market value.

The Company has adopted application of IAS-40-Investment Property, and has chosen the Fair Market Value method of presenting its investment properties in the financial statements.

The fair value of investment properties is based on valuations by a combination of independent appraisers and management estimates plus any capital additions since the date of the most recent appraisal. Appraisals are performed on a three year rotating basis unless market conditions warrant more frequent appraisals. Management regularly undertakes a review of its investment property revaluation between appraisal dates to assess the continuing validity of the underlying value assumptions such as cash flow and capitalization rates. These assumptions are tested against market information obtained from independent industry experts. Where increases or decreases are warranted, the company adjusts the carrying values of its investment properties. Included in the values at June 30, 2005 are unrealized fair value increases totaling \$3,204 (December 31, 2004 - \$2,532) in excess of values determined by independent appraisals. The effective date of the revaluation is June 30, 2005 and 98.5% (December 31, 2004 - 98.5%) percent of the portfolio value has been subject to independent appraisal within the last three years.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

3. Summary of significant accounting policies (cont.)

- ii) Development properties consist of properties which are under construction or in a major repositioning program. These properties are recorded at cost, including pre-development expenditures.

c) Capitalization of costs

- i) The Company capitalizes investment property acquisition costs incurred at the time of purchase.
- ii) The Company capitalizes costs as part of development properties, including all expenditures incurred in connection with the acquisition, development, construction, and initial predetermined leasing period. These expenditures, consist of all direct costs and interest on debt that is related to these assets. Income relating directly to development properties during the development period is treated as a reduction of capitalized costs.

d) Revenue recognition

Management has determined that all of the Company's leases with its various tenants are operating leases. 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.

Gains and losses from the sale of properties are recorded when the collection of the sale proceeds is reasonably assured, and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied are included in properties held for resale. There were two such properties at June 30, 2005 and none at December 31, 2004. (See Note 20d)

The Company follows the provisions of IAS 40 and accounts for its investment property using the fair value model and records any unrealized valuation changes as income (expense) in the year of the valuation change.

e) 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.

f) 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 residential tenants. Bank borrowings are considered to be financing activities.

g) 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 arising on translation of these subsidiaries are deferred and included in the cumulative foreign currency translation account within shareholders' equity.

h) Stock options and contributed surplus

The Company has a stock-based compensation plan which is described in Note 15. 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 in the first six months of 2005 was \$1,143 (June 30, 2004 - Nil).

i) Use of estimates and measurement uncertainty

The preparation of financial statements in conformity with International Financial Reporting Statements 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. Significant estimates made by management include future cash flows and capitalization rates used in determining fair market value of investment properties. Actual results could materially differ from those estimates.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

3. Summary of significant accounting policies (cont.)

j) Portfolio investments

Portfolio investments are carried at fair market value.

k) Amortization of intangibles

The values of the above-market and below-market leases are amortized to rental income on a straight-line basis over the remaining term of the respective lease. Lease origination costs are amortized to expense on a straight-line basis over the remaining term of the respective lease.

l) Derivative financial instruments

The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on certain of its long term debt. The current interest rate swaps do not qualify for hedge accounting and are adjusted to market and recognized in earnings in the reporting period.

4. Change in accounting policy

Variable interest entities

The IASB has issued guidance on accounting for variable interest entities, titled SIC 12, Consolidation - special purpose entities. The Company has adopted the SIC, effective January 1, 2005. The SIC provides guidance on consolidation and disclosure of variable interest entities. The Company has assessed the impact of the Accounting Guideline, and determined that it is not the primary beneficiary of any variable interest entities.

5. Business acquisitions

On June 1, 2005 the company acquired a portfolio of 11 commercial real estate properties in Germany and The Netherlands by way of a combination of share and asset purchases. The results of the portfolio's operations have been included in the consolidated financial statements since that date. The portfolio consists of office, retail and industrial facilities.

The aggregate purchase price was \$494,017, including \$34,903 of cash and common stock valued at \$65,032. The value of the 21,677,487 Class A Subordinate Voting Shares issued was determined based on the market price of the company's Class A shares when the terms of the acquisition were agreed upon.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition, June 1, 2005.

Investment properties	\$	490,497
Intangible assets		8,344
Notes receivable		<u>363</u>
		<u>499,204</u>
Mortgages payable		356,029
Future income taxes		27,762
Notes payable		9,778
Derivative instrument liability		4,518
Intangible liabilities		669
Deferred rental revenue		<u>513</u>
		<u>399,269</u>
Net Assets acquired	\$	<u>99,935</u>

As part of this acquisition, two of the properties have entered into a repurchase commitment agreement. The terms of the agreement state that if the current debt agreement associated with these properties cannot be replaced by December 15, 2005 with new financing under similar terms, the vendor will repurchase under the same conditions as they were sold.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

6. Investment properties	June 30 2005	December 31 2004 (Audited)
Balance, beginning of period	\$ 322,950	\$ 270,570
Deductions:		
Disposals	(42,192)	(1,196)
Cumulative currency translation adjustment	(10,234)	(2,557)
Transfer to property held for resale	(7,526)	
Additions:		
Acquisition through purchases, plus capitalized costs on acquisition	477,838	30,527
Capitalized costs of properties	4,706	2,655
Unrealized valuation changes	3,204	22,951
Balance, end of period	<u>\$ 748,746</u>	<u>\$ 322,950</u>

In the first six months of 2005 investment properties were acquired at an aggregate cost of \$497,788 and one property valued at \$51,840 was disposed of resulting in a realized valuation change of \$4,516. The acquisitions were financed by the assumption of debt and other liabilities in the amount of \$390,562, the issue of share capital of \$65,132 and cash of \$42,194.

In 2004 capital assets were acquired at an aggregate cost of \$39,517. The acquisitions were financed by new debt of \$12,800, the assumption of debt totaling \$483, the issue of \$250 in common stock, and cash of \$25,984.

If the properties had not been revalued, the carrying amount of properties at depreciated historic cost would be \$702,877, (December 31, 2004 - \$249,316).

7. Development properties	June 30 2005	December 31 2004 (Audited)
Land held for future development	\$ 17,186	\$ 8,752
Property under construction	<u>12,621</u>	<u>1,335</u>
	<u>\$ 29,807</u>	<u>\$ 10,087</u>

In the first six months of 2005, the Company capitalized acquisition, development and related costs of \$22,164 (December 31, 2004 - \$7,437) of which \$1,124 (December 31, 2004 - \$NIL) was interest capitalized. Also during the period \$1,871 (December 31, 2004 - \$24,428) was reclassified to investment properties.

8. Cash and cash equivalents	June 30 2005	December 31 2004 (Audited)
Cash	\$ 14,023	31,258
Restricted cash	<u>17,677</u>	<u>10,464</u>
	<u>\$ 31,700</u>	<u>\$ 41,722</u>

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

9. Intangible assets and liabilities

Intangible assets are composed of the value of above-market leases and lease origination costs for real property acquisitions and are net of accumulated amortization of \$ 54.

Intangible liabilities are composed of the value of below-market leases for income property acquisitions and are net of accumulated amortization of \$13.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

10. Receivables and other	June 30 2005	December 31 2004 (Audited)
Trade receivables	\$ 3,409	\$ 2,598
Mortgage bond receivable	239	3,151
Related party receivable		1,664
Prepays	<u>1,162</u>	<u>775</u>
	<u>\$ 4,810</u>	<u>\$ 8,188</u>

11. Long term investment

The Company holds 50,000 (December 31, 2004 - 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. The market value of this portfolio investment at June 30, 2005 was \$867 (December 31, 2004 - \$862).

12. Mortgages payable	June 30 2005	December 31 2004 (Audited)
Fixed rate mortgages, various maturities from 2005 to 2020, weighted average interest rate of 4.554% as at June 30, 2005 (December 31, 2004 - 7.04%). As security for those mortgages, the Company has pledged specific property, and an assignment of specific rents receivable.	\$ 443,803	\$ 117,941
Construction financing	<u>1,375</u>	
	<u>\$ 445,178</u>	<u>\$ 117,941</u>

Principal installments are payable as follows:

	Total
2005 -remainder of year	\$ 96,027
2006	17,802
2007	15,354
2008	15,658
2009	39,409
Subsequent years	<u>260,928</u>
	<u>\$ 445,178</u>

Included in mortgages payable are USD \$14,362 (CAD \$17,647) and EUR €225,344 (CAD \$334,484) of mortgage obligations (December 31, 2004 USD \$14,571 (CAD \$17,556)). The non-CAD denominated debt is translated at period end exchange rates.

13. Accounts payable and other liabilities	June 30 2005	December 31 2004 (Audited)
Trade payables (Note 18e)	\$ 8,641	\$ 5,609
Security deposits	80	79
Income taxes payable		527
Prepaid rents	<u>2,051</u>	<u>1,047</u>
	<u>\$ 10,772</u>	<u>\$ 7,262</u>

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

14. Mortgage bonds payable	June 30 2005	December 31 2004 (Audited)
HMB Series 1 Bonds	\$ 4,420	\$ 4,420
HMB Series 1 Bonds	14,685	16,283
HMB Series 2 Bonds	44,476	49,314
HMB Series 4 Bonds	29,666	32,892
HMB Series 5 Bonds	<u>29,666</u>	<u>32,892</u>
	<u>\$ 122,913</u>	<u>\$ 135,801</u>

<u>Bond Series</u>	<u>Amount</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
HMB1	CAD \$ 4,420	December 16, 2002	10%	December 15, 2009
HMB1	EUR € 9,905	December 16, 2002	8.5%	December 15, 2009
HMB2	EUR €30,000	April 26, 2003	7.5%	April 25, 2010
HMB4	EUR €20,010	December 1, 2004	7.5%	November 30, 2011
HMB5	EUR €20,010	December 31, 2004	7.5%	December 31, 2011

All Bonds call for interest only payments until maturity and the interest is payable semi-annually in equal installments on June 30 and December 31 in each year.

The Company has entered into guarantee arrangements on all series of bonds to maturity, with a company under the control of the Chairman and Chief Executive Officer. 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 June 30, 2005 reflect a decrease of \$9,262 (December 31, 2004 increase of \$3,626) in principal amount representing the increase in the Canadian dollar versus the Euro since the Bonds were issued. This \$9,262 decline (December 31, 2004 \$3,626 increase) has been offset by the currency guarantee which has been recorded as a long term liability (December 31, 2004 - 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.

All Bonds are secured by a first or second charge over specific assets, and a corporate guarantee of the company.

The Company has the option to redeem all Series of Bonds at their face amount anytime subsequent to the fifth anniversary of the issue of the Bonds.

Required principal repayment in the absence of any redemptions by the Company will be Nil for the next four years, and \$20,000 in 2009, including the currency guarantee component.

15. Shareholders' equity	June 30 2005	December 31 2004 (Audited)
Share capital (a)	\$ 139,914	\$ 63,035
Convertible promissory notes (c)	9,207	
Contributed surplus (d)	1,143	
Cumulative currency translation adjustment (f)	(8,318)	(1,893)
Retained earnings	<u>43,653</u>	<u>42,341</u>
	<u>\$ 185,599</u>	<u>\$ 103,483</u>

a) Share capital

The Company is authorized to issue an unlimited number of Class A Subordinate Voting Shares ("Class A"), an unlimited number of Class B Multiple Voting Shares ("Class B"), an unlimited number of Class A Preferred Shares ("Preferred"), issuable in series and an unlimited number of Class B Preferred Shares ("Preferred"), issued in series.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

15. Shareholders' equity (cont.)

Holders of Class A shares shall be entitled to receive notice of, to attend and to vote at all meetings of shareholders of the Company, voting together with holders of Class B shares, except for meetings at which only holders of a specified class or series are entitled to vote. Class A shares shall be entitled to one vote for each Class A share held.

Holders of Class B shares shall be entitled to receive notice of, to attend and to vote at all meetings of the shareholders of the Company, voting together with the holders of the Class A shares, except for meetings at which holders of a specified class or series are entitled to vote. Holders of Class B shares shall be entitled to 25 votes for each Class B share held.

Class A shares will be convertible into Class B shares in certain limited circumstances involving offers made to all or substantially all of the holders of Class B shares.

Dividends are payable on Class A shares and Class B shares when declared by the Board of Directors.

Preferred shares may be issued from time to time on one or more series, each series comprising the number of shares, designations, rights, privileges, restrictions and conditions which the Board of Directors determines by resolution prior to issuance. Preferred shares are non-voting and rank in priority to the Class A and Class B shares with respect to dividends and distribution upon dissolution. No Preferred shares have been issued.

The following table sets forth the particulars of the issued and outstanding shares of the Company:

	Common Shares	Class A Subordinate Voting Shares	Class B Multiple Voting Shares	Stated Capital
Issued and outstanding at December 31, 2003	46,376			\$ 48,547
Exercise of options	120			108
Acquisitions (Note 6)	162			250
Private placements (b)	8,334			12,000
Dividend reinvestment plan	1,923			2,786
Quarterly redemption of shares	(463)			(486)
Issue costs				(170)
Issued and outstanding at December 31, 2004	56,452			63,035
Exercise of options	572			628
Private placements (b)	2,660			7,500
Dividend reinvestment plan	1,439			4,091
Issue costs				(417)
Share reorganization April 1, 2005	(61,123)	30,561	30,562	
Acquisitions (Note 5)		23,371	70,112	
Exercise of options		25	25	45
Shares in escrow (20f)				(5,080)
Issued and outstanding at June 30, 2005		53,957	30,587	\$ 139,914

b) Private placements

In the first six months of 2005, the Company issued 2,659,574 common shares through a private placement at a price of \$2.82 per share.

In 2004, the Company issued 8,333,332 common shares through two private placements at a price of \$1.44 per share.

1,388,888 common shares were issued to a Director for cash. 6,944,444 common shares were issued to corporations controlled by the Chairman and Chief Executive Officer consisting of 3,472,222 common shares issued for cash, and 3,472,222 common shares issued to effect conversion of demand loans payable to equity.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

15. Shareholders' equity (cont.)

c) Convertible promissory notes

The Company has issued five 5.33% promissory notes totaling €6,189 as part of the acquisition outlined in Note 5 that are convertible to Class A Subordinate Voting Shares at the option of the Company, based on the average trading price for the Class A Subordinate Voting Shares for the five business days prior to May 31, 2006.

d) Contributed surplus

	June 30 2005	December 31 2004 (Audited)
Beginning of year	\$ NIL	\$ 159
Stock based compensation	1,143	
Applied to share redemption		(159)
End of year	<u>\$ 1,143</u>	<u>\$ NIL</u>

e) 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 2,567 Class A Subordinate Voting Shares and 953 Class B Multiple Voting Shares. Under the plan, the exercise price of each option shall not be less than the closing market price of the common shares on TSX on the last trading day prior to the date of granting of the stock option and an option's maximum term is 10 years. Options are granted and vest at the discretion of the Board of Directors.

The Company follows the recommendations of IFRS 2 concerning Share Based Payments wherein fair value of each option grant is estimated on the date of grant using the Binomial or similar option pricing model. These models estimate fair value using various assumptions related to dividend yield, expected volatility, exercise price, current price of underlying stock, risk free interest rate and expected life of the options.

A summary of the status of the Company's Stock Option Plan as at June 30, 2005 and December 31, 2004 and changes during the periods ending on those dates is presented below.

	June 30 2005		December 31 2004 (Audited)	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2,477	\$ 1.16	2,756	\$ 1.1
Granted	1,614	\$ 2.85	NIL	
Exercised	(622)	\$ 1.07	(120)	\$ 0.90
Expired	<u>NIL</u>		<u>(158)</u>	\$ 0.90
Outstanding at end of period (Note b)	<u>3,469</u>	\$ 1.96	<u>2,478</u>	\$ 1.16

Number of Shares Under Option	Date of Grant	Expiration Date	Exercise Price
488	October 23, 2000	October 22, 2005	\$ 1.10
132	June 13, 2001	June 12, 2006	\$ 0.90
1,235	February 8, 2002	February 7, 2007	\$ 1.26
1,614	June 30, 2005	June 29, 2010	\$ 2.85
<u>3,469</u>			

f) Cumulative currency translation adjustments

The cumulative currency translation adjustment represents the unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States of America, Germany and The Netherlands. The change for the year reflects the impact of currency movements during the year on these net assets.

The rate of exchange in effect on June 30, 2005 was \$1.00 USD = \$1.23 CAD (June 30, 2004 - \$1.35 CAD and € 1.00 EUR = \$1.48 CAD). The average rate of exchange for the first six months of 2005 was \$1.00 USD = \$1.23 CAD (2004 - \$1.34 CAD). The average rate of exchange for the month of June 2005 was €1.00 EUR = \$1.51 CAD.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts - June 30, 2005 and December 31, 2004 (Unaudited)

16. 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:

	June 30 <u>2005</u>	June 30 <u>2004</u>
Earnings before income taxes	\$ <u>9,120</u>	\$ <u>3,061</u>
Combined income tax rate	<u>36.00%</u>	<u>37.50%</u>
Income taxes	\$ 3,283	\$ 1,148
Increase (decrease) in income taxes resulting from:		
Large corporation tax	300	200
Non deductible expenses	397	
Permanent adjustment on unrealized and realized valuation changes	<u>(987)</u>	<u>(299)</u>
	<u>\$ 2,993</u>	<u>\$ 1,049</u>
Income taxes:		
Current income and capital taxes taxes	1,203	200
Deferred income taxes	<u>1,790</u>	<u>849</u>
	<u>\$ 2,993</u>	<u>\$ 1,049</u>

Deferred income taxes primarily 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 deferred income tax liability at June 30, 2005 was \$51,908 (December 31, 2004 - \$23,173).

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

17. Financial instruments and risk management

Financial instruments

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

The Company holds the following long term financial instruments: mortgages, mortgage bonds payable, currency guarantee payable and deferred rental receipts. The mortgages have a fair value of \$457,851 (December 31, 2004 - \$123,068). 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 \$141,756 (December 31, 2004 - \$138,864). The currency guarantee payable is not susceptible to independent fair value valuation. As such, valuation is carrying value.

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, management has determined these costs to be impractical to estimate.

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

Risk management

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

a) Interest rate risk

The assets and liabilities of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company has minimized its interest rate risk through a liability management policy. The Company allocates the maturity of its debt over a period of approximately 15 years. In addition, the Company has entered into interest rate swaps maturing in October, 2014 in order to manage the impact of fluctuating interest rates on €33,375 EUR of its long term debt. Due to a reduction of interest rates in the Netherlands and Germany during the quarter, the impact on the income statement is a loss of \$640.

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 performing credit checks on prospective tenants and ensuring that its tenant mix is diversified.

In support of the currency guarantee receivable the related party has arranged an arms length credit facility agreement.

c) Currency risk

Currency risk arises from debt or expenses denominated in US Dollars or Euros. The Company mitigates currency risk of debt denominated in Euros through a guarantee agreement (See note 14). Currency risk for amounts denominated in US Dollars is mitigated by US Dollar revenue streams from property rentals.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

18. 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. A summary of the various revenues and expenses between related parties are as follows:

	June 30	June 30
	2005	<u>2004</u>
Rental revenue earned	<u>\$ 118</u>	\$ 211
Asset and construction management fees incurred	<u>\$ 1,474</u>	\$ 1,343
Property management fees incurred	<u>\$ 752</u>	\$ 756
Insurance incurred	<u>\$ 164</u>	\$ 79
Service fees incurred	<u>\$ 116</u>	\$ 87
Property acquisition disposal fees incurred	<u>\$ 15,549</u>	\$ 396
Mortgage bond guarantee fees incurred	<u>\$ 1,461</u>	\$ 490
Interest recovery	<u>\$ (1,143)</u>	<u>\$</u>
Demand loan interest and fees accrued	<u>\$</u>	<u>\$ 106</u>

The transactions are recorded at exchange amounts.

- 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 \$66 (June 30, 2004 - \$75) were purchased from a corporation of which one of the Companies directors are affiliated in 2005 and 2004.
- d) The Company has entered into a guarantee arrangement for the principal and interest amounts, of the Mortgage Bonds payable to maturity, 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 2.0% on the Series 2 Bonds, and 1.6% on the Series 4 and Series 5 Bonds.
- e) Included in accounts payable is a mortgage bond syndication fee of \$NIL (December 31, 2004 - \$1,316), mortgage bond guarantee fees of \$1,461 (December 31, 2004 - \$561) and management fees of \$109 (December 31, 2004 - \$35) payable to companies commonly controlled by the Chairman and Chief Executive Officer.
- f) The Company has purchased 5 inactive development companies from a company under the control of the Chairman and Chief Executive Officer at their net book value, which approximates fair market value of \$10 each.

19. Earnings per share

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

	Three Mos.	Three Mos.	Six Mos.	Six Mos.
	Ended	Ended	Ended	Ended
	June 30	June 30	June 30	June 30
	2005	2004	2005	2004
Basic	<u>68,355</u>	46,121	<u>62,873</u>	46,236
Diluted	<u>70,441</u>	46,548	<u>64,383</u>	46,622

The dilution of 1,511 shares (June 30, 2004 - 257) 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.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

20. Commitments

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

2005	\$	118
2006	\$	117
2007	\$	101
2008	\$	68
2009	\$	39

- b) The Company and its subsidiaries have entered into various property management agreements, expiring between 2010 and 2012. (See Note 18a)
- c) The Company entered into an agreement to purchase a property for development in Calgary, Alberta for a total price of \$14,000. This acquisition is scheduled to close in 2005 through the payment of cash.
- d) The Company has entered into agreements to sell two properties in the United States for proceeds of \$7,526. These transactions are scheduled to close in the third quarter.
- e) The Company has reached an agreement in principal, by way of Letter of Intent to acquire a portfolio of commercial and residential real estate in the Netherlands and Germany. The total acquisition cost will be approximately \$768,000, which the Company intends to finance with a combination of debt and equity. The transaction is set to close on or before November 15, 2005, and is subject to full due diligence being completed to the Company's satisfaction, required regulatory approvals in Canada and Europe, and the final approval of the Company's Board of Directors.
- f) The Company has entered into an agreement to purchase a property in Germany for \$13,000 subject to satisfactory financing being arranged. The Company has issued \$5,080 in Class A subordinate voting shares, that are being held in escrow and will be released to the vendor pending completion of the transaction.
- g) The Company has entered into agreements to purchase a property in Montreal, Quebec for \$1,100 and one in Charlottetown, Prince Edward Island for \$690. These acquisitions are scheduled to close in the third quarter.

21. Contingent liability

a) There are claims which the Company is involved with, arising out of the ordinary course of business operations. The Company's management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.

22. Subsequent events

a) In July 2005, the Company raised €62,460 through the issuance of mortgage bonds HMB6 and HMB7. The purpose of these funds is to acquire real property for leasing and/or development. .

23. Supplemental cash flow information

	June 30 2005	June 30 2004
Interest paid	\$ <u>6,803</u>	\$ <u>8,166</u>
Capital and income taxes paid	\$ <u>939</u>	\$ <u>446</u>

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

24. Segmented Information

The Company owns a diverse portfolio of residential and commercial income-producing properties located in Canada, the United States of America, Germany and the Netherlands. 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:

Six Months Ended

June 30, 2005	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 8,077	\$ 3,718	\$ 8,965	\$ 1,252	\$ 22,012
Operating expenses	<u>2,483</u>	<u>330</u>	<u>4,092</u>	<u>608</u>	<u>7,513</u>
	<u>\$ 5,594</u>	<u>\$ 3,388</u>	<u>\$ 4,873</u>	<u>\$ 644</u>	<u>\$ 14,499</u>

Six Months Ended

June 30, 2004	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 7,749	\$ 1,541	\$ 8,214	\$ 1,224	\$ 18,728
Operating expenses	<u>2,334</u>	<u>198</u>	<u>3,888</u>	<u>648</u>	<u>7,068</u>
	<u>\$ 5,415</u>	<u>\$ 1,343</u>	<u>\$ 4,326</u>	<u>\$ 576</u>	<u>\$ 11,660</u>

Six months ended

June 30, 2005	Germany/ Netherlands	Canada	US	Total
Property revenue	\$ 2,885	\$ 16,257	\$ 2,870	\$ 22,012
Operating expenses	<u>98</u>	<u>6,003</u>	<u>1,412</u>	<u>7,513</u>
	<u>\$ 2,787</u>	<u>\$ 10,254</u>	<u>\$ 1,458</u>	<u>\$ 14,499</u>

Six Months Ended

June 30, 2004	Germany/ Netherlands	Canada	US	Total
Property revenue	\$	\$ 15,959	\$ 2,769	\$ 18,728
Operating expenses		<u>5,269</u>	<u>1,799</u>	<u>7,068</u>
		<u>\$ 10,690</u>	<u>\$ 970</u>	<u>\$ 11,660</u>

June 30, 2005	Retail	Industrial	Office	Residential	Total
Investment property	\$ 136,003	\$ 387,936	\$ 204,930	\$ 19,877	\$ 748,746
Mortgages payable	<u>39,286</u>	<u>264,478</u>	<u>128,507</u>	<u>12,907</u>	<u>445,178</u>
Mortgage bonds payable	<u>46,158</u>	<u>5,601</u>	<u>2,271</u>		<u>54,030</u>

December 31, 2004 (Audited)	Retail	Industrial	Office	Residential	Total
Investment property	\$ 128,560	\$ 26,510	\$ 148,264	\$ 19,616	\$ 322,950
Mortgages payable	<u>38,393</u>	<u>13,421</u>	<u>54,275</u>	<u>11,852</u>	<u>117,941</u>
Mortgage bonds payable	<u>51,136</u>	<u>6,069</u>	<u>2,460</u>		<u>59,665</u>

June 30, 2005	Germany/ Netherlands	Canada	US	Total
Investment property	\$ 475,427	\$ 244,348	\$ 28,971	\$ 748,746
Mortgages payable	<u>334,070</u>	<u>93,461</u>	<u>17,647</u>	<u>445,178</u>
Mortgage bonds payable	<u>-</u>	<u>122,913</u>	<u>-</u>	<u>122,913</u>

December 31, 2004 (Audited)	Germany Netherlands	Canada	US	Total
Investment property	\$	\$ 286,925	\$ 36,025	\$ 322,950
Mortgages payable		<u>100,385</u>	<u>17,556</u>	<u>117,941</u>
Mortgage bonds payable		<u>135,801</u>	<u>-</u>	<u>135,801</u>

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

24. Segmented Information (cont.)

At June 30, 2005 Mortgage bonds payable total \$122,913 inclusive of the currency guarantee payable of \$9,262. Approximately \$68,883 of the mortgage bond proceeds have been invested in properties under/or for development in Canada. The remaining \$54,030 is allocated to specific segments above.

At December 31, 2004 Mortgage bonds payable total \$135,801. Of this amount \$76,136 related to properties under development and cash intended for acquisitions and development projects which will be located in Canada. The remaining \$59,665 is allocated to specific segments above.

25. 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:

2005	\$	29,122
2006		56,964
2007		55,607
2008		53,137
2009		49,227
Thereafter		<u>376,975</u>
	\$	<u>621,032</u>

26. Staff costs

The Company has a Management Agreement with a related party (Note 18) and therefore has no employees.

NOTES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CAD thousands except per share amounts – June 30, 2005 and December 31, 2004 (Unaudited)

27. Interest in joint ventures

The Company, at June 30, 2005, and December 31, 2004, owns a partial interest in seven limited partnerships. The ownership percentages range from 5% to 55.55%. These partnerships operate commercial rental properties.

These financial statements reflects 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:

	June 30 2005	December 31 2004 (Audited)
Assets		
Cash and cash equivalents	\$ 142	\$ 143
Receivables	142	98
Prepays	588	127
Investment properties	<u>8,369</u>	<u>8,272</u>
	<u>\$ 9,241</u>	<u>\$ 8,640</u>
Liabilities		
Accounts payable	\$ 208	\$ 121
Security deposits and prepaid rent	21	11
Mortgages payable	<u>5,008</u>	<u>4,114</u>
	<u>\$ 5,237</u>	<u>\$ 4,246</u>
	June 30	June 30
	2005	2004
Revenue		
Property revenue	<u>\$ 759</u>	<u>\$ 729</u>
Expenses		
Property operating expenses	\$ 351	\$ 347
Mortgage interest	152	147
Depreciation and amortization	<u>65</u>	<u>60</u>
	<u>\$ 568</u>	<u>\$ 554</u>
Cash flow		
Funds from operations	<u>\$ 255</u>	<u>\$ 241</u>
Net cash from operating activities	<u>\$ 282</u>	<u>\$ (153)</u>
Net cash from financing activities	<u>\$ (228)</u>	<u>\$ 203</u>
Net cash from investing activities	<u>\$ (40)</u>	<u>\$ (14)</u>

28. Comparative figures

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



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