

**Homburg Invest Inc.  
Consolidated Interim Financial Statements  
International Financial Reporting Standards  
(Unaudited - Prepared by Management)**

September 30, 2009

The interim consolidated financial statements for the nine months ended September 30, 2009, have not been reviewed by the Company's external auditors.

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# Homburg Invest Inc.

## Consolidated Interim Balance Sheet

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

September 30  
2009

December 31  
2008

### Assets

#### Non-current assets

Investment properties		\$ 3,297,197	\$ 3,549,744
Development properties		319,620	224,285
Currency guarantee receivable		9,753	28,165
Investments	3	31,367	40,086
Restricted cash		<u>22,785</u>	<u>25,969</u>
		<u>3,680,722</u>	<u>3,868,249</u>

#### Current assets

Cash		16,652	16,359
Construction properties being developed for resale		128,746	194,638
Receivables and other	2	<u>54,511</u>	<u>65,390</u>
		<u>199,909</u>	<u>276,387</u>

#### Total assets

\$ 3,880,631      \$ 4,144,636

### Equity and Liabilities

Total equity      7      \$ 589,315      \$ 606,768

#### Non-current liabilities

Long term debt	5	2,629,539	2,901,348
Derivatives	10	25,934	19,427
Deferred tax liabilities	6	87,956	143,930
Other liabilities	4	<u>30,352</u>	<u>29,727</u>
		<u>2,773,781</u>	<u>3,094,432</u>

#### Current liabilities

Accounts payable and other liabilities	4	236,448	255,585
Income taxes payable	6	8,234	5,739
Liabilities of discontinued operations		28,903	28,903
Construction financing		111,025	102,433
Current portion of long term debt	5	<u>132,925</u>	<u>50,776</u>
		<u>517,535</u>	<u>443,436</u>

#### Total liabilities

3,291,316      3,537,868

#### Total equity and liabilities

\$ 3,880,631      \$ 4,144,636

Commitments	12
Contingent liabilities	13
Subsequent events	16

Approved by the Board, November 12, 2009

"Signed"  
Richard Homburg, Phzn., D. Comm.  
Director

"Signed"  
Edward P. Ovsenny  
Director

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

**Homburg Invest Inc.**  
**Consolidated Interim Income Statement**  
**Nine Months Ended September 30**  
**(Unaudited - Prepared by Management)**  
(CAD \$ thousands except per share amounts)

		Three Mos. Ended September 30 2009	Three Mos. Ended September 30 2008	Nine Mos. Ended September 30 2009	Nine Mos. Ended September 30 2008
	Note				
Property revenue	15	\$ 77,328	\$ 76,469	\$ 242,685	\$ 228,572
Sale of properties developed for resale		<u>8,751</u>	<u>39,917</u>	<u>48,541</u>	<u>170,826</u>
<b>Total revenues</b>		<b><u>86,079</u></b>	<b><u>116,386</u></b>	<b><u>291,226</u></b>	<b><u>399,398</u></b>
Property operating expenses	15	22,662	20,712	72,061	60,603
Cost of sale of properties developed for resale		<u>27,528</u>	<u>31,236</u>	<u>75,977</u>	<u>132,052</u>
		<b><u>50,190</u></b>	<b><u>51,948</u></b>	<b><u>148,038</u></b>	<b><u>192,655</u></b>
<b>Gross income from operations</b>		<b>35,889</b>	64,438	<b>143,188</b>	206,743
General and administrative		(5,076)	(5,234)	(16,864)	(17,138)
Stock based compensation		(25)	(52)	(121)	(259)
Other income, net		887	1,075	1,641	1,841
Dividend income		470	24	852	2,964
Net adjustment to fair value of investment properties		(10,733)	(25,403)	(62,719)	(29,414)
Gain on sale of investments				2,252	
Net adjustment to fair value of development properties		(5,501)		(5,501)	
Net adjustment to fair value of held for trading financial assets	3	(1,060)	(5,034)	(1,995)	(12,131)
Net adjustment to fair value of derivative financial instruments	10a	(3,316)	(5)	(8,127)	(907)
Interest expense	4,5	(39,535)	(40,122)	(120,640)	(123,560)
Exchange differences, net		<u>5,403</u>	<u>6,360</u>	<u>16,183</u>	<u>5,398</u>
<b>Income (loss) before income taxes</b>		<b><u>(22,597)</u></b>	<b><u>(3,953)</u></b>	<b><u>(51,851)</u></b>	<b><u>33,537</u></b>
Total income taxes (recovery)	6	<u>(5,993)</u>	<u>5,198</u>	<u>(12,591)</u>	<u>8,125</u>
<b>Net income (loss)</b>		<b><u><u>\$ (16,604)</u></u></b>	<b><u><u>\$ (9,151)</u></u></b>	<b><u><u>\$ (39,260)</u></u></b>	<b><u><u>\$ 25,412</u></u></b>
<b>Earnings (loss) per share</b>	8				
<b>Per Class A Subordinate Voting Share and Class B Multiple Voting Share</b>					
<b>Basic</b>					
Net income (loss)		<u><u>\$ (0.86)</u></u>	<u><u>\$ (0.46)</u></u>	<u><u>\$ (2.01)</u></u>	<u><u>\$ 1.29</u></u>
<b>Diluted</b>					
Net income (loss)		<u><u>\$ (0.86)</u></u>	<u><u>\$ (0.46)</u></u>	<u><u>\$ (2.01)</u></u>	<u><u>\$ 1.26</u></u>

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

**Homburg Invest Inc.**  
**Consolidated Interim Statement of Comprehensive Income (Loss)**  
**Nine Months Ended September 30**  
**(Unaudited - Prepared by Management)**

	Three Mos. Ended September 30 2009	Three Mos. Ended September 30 2008	Nine Mos. Ended September 30 2009	Nine Mos. Ended September 30 2008
<i>(CAD \$ thousands except per share amounts)</i>				
Net income (loss)	\$ <u>(16,604)</u>	\$ (9,151)	\$ <u>(39,260)</u>	\$ <u>25,412</u>
Other comprehensive income (loss)				
Unrealized foreign currency translation gain (loss)	(30,335)	(33,826)	(76,179)	17,786
Future income tax recovery (expense)	<u>14,356</u>	<u>26,012</u>	<u>39,478</u>	<u>(9,527)</u>
	<u>(15,979)</u>	<u>(7,814)</u>	<u>(36,701)</u>	<u>8,259</u>
Foreign currency gain (loss) on financial instruments designated as hedges of self sustaining foreign operations	9,119	22,866	32,573	(12,620)
Future income tax expense (recovery)	<u>          </u>	<u>(3,836)</u>	<u>          </u>	<u>2,019</u>
	<u>9,119</u>	<u>19,030</u>	<u>32,573</u>	<u>(10,601)</u>
Other comprehensive income (loss)	<u>(6,860)</u>	<u>11,216</u>	<u>(4,128)</u>	<u>(2,342)</u>
Comprehensive income (loss)	<u>\$ (23,464)</u>	<u>\$ 2,065</u>	<u>\$ (43,388)</u>	<u>\$ 23,070</u>

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**Homburg Invest Inc.**  
**Consolidated Interim Statement of Changes in Equity**  
**Nine Months Ended September 30**  
**(Unaudited - Prepared by Management)**  
(CAD \$ thousands except per share amounts)

	Other paid in Capital	Revaluation Surplus	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (deficit)	Total
<b>Balance December 31, 2007</b>	\$ 11,489	\$ 33,547	\$ 633,265	\$ 5,645	\$ (18,560)	\$ 220,885	\$ 886,271
Comprehensive income (loss) for the year					19,209	(276,653)	(257,444)
Dividend related to DIM Vastgoed N.V. dividend guarantee						(677)	(677)
Dividends (\$4.49 per share)						(88,213)	(88,213)
Dividend reinvestment plan			22,572				22,572
Issue costs			(62)				(62)
Shares issued for stock dividend			44,788				44,788
Acquisition and cancellation of own shares			(2,028)	1,254			(774)
Stock based compensation				307			307
<b>Balance December 31, 2008</b>	11,489	33,547	698,535	7,206	649	(144,658)	606,768
Comprehensive income (loss) for the period					(4,128)	(39,260)	(43,388)
Dividend related to DIM Vastgoed N.V. dividend guarantee						(107)	(107)
Acquisition and cancellation of own shares			(6,750)	5,403			(1,347)
Homburg Capital Securities A (Note 7b)	27,877					(609)	27,268
Stock based compensation				121			121
<b>Balance September 30, 2009</b>	<u>\$ 39,366</u>	<u>\$ 33,547</u>	<u>\$ 691,785</u>	<u>\$ 12,730</u>	<u>\$ (3,479)</u>	<u>\$ (184,634)</u>	<u>\$ 589,315</u>

See accompanying notes to these consolidated interim financial statements prepared under International Financial Reporting Standards.  
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**Homburg Invest Inc.**  
**Consolidated Interim Statement of Cash Flows**  
**Nine Months Ended September 30**  
**(Unaudited - Prepared by Management)**

(CAD \$ thousands except per share amounts)

	Three Mos. Ended September 30 Note	Three Mos. Ended September 30 2008	Nine Mos. Ended September 30 2009	Nine Mos. Ended September 30 2008
<b>Operating activities</b>				
Net income (loss)	\$ (16,604)	\$ (9,151)	\$ (39,260)	\$ 25,412
Adjustments for:				
Realized valuation changes			(2,252)	
Deferred rental income	(446)	(1,048)	(2,425)	(7,692)
Unrealized valuation changes	10,733	25,403	62,719	29,414
Goodwill impairment loss	5,501		5,501	
Deferred income taxes	(7,786)	2,909	(17,894)	4,503
Stock based compensation	25	52	121	259
Amortization of financing fees	1,257	922	3,482	7,877
Fair value change in financial assets	1,062	5,034	1,997	12,131
Accretion of discounted liabilities	376	69	873	349
Loss on derivative instruments	3,316	5	8,127	907
Foreign exchange gain	(5,403)	(6,360)	(16,183)	(5,398)
Change in non-cash working capital and other	9 25,438	(1,130)	28,537	(10,365)
Net cash from operating activities	<u>17,469</u>	<u>16,705</u>	<u>33,343</u>	<u>57,397</u>
<b>Investing activities</b>				
Investment in investment properties	(6,159)	(11,662)	(17,945)	(37,406)
Decrease in restricted cash	(1,384)	(3,122)	3,184	7,253
Investment in development properties	(13,595)	(22,765)	(38,036)	(76,298)
Proceeds on sale of long term investments			13,946	
Purchase of long term investments	(744)	(887)	(6,023)	(4,575)
Net cash used in investing activities	<u>(21,882)</u>	<u>(38,436)</u>	<u>(44,874)</u>	<u>(111,026)</u>
<b>Financing activities</b>				
Increase (decrease) in demand loans	(2,112)	3,653	(10,389)	(354,056)
Increase (decrease) in mortgages payable	4,863	(13,267)	(13,666)	279,094
Proceeds from bonds		28,712	11,043	119,504
Decrease (increase) in related party receivable	75		(10,960)	
Increase in deferred financing charges	23	(1,050)	(744)	(10,771)
Repurchase of common shares and issue costs			(1,346)	(51)
Dividends paid		(114)		(20,853)
Decrease in related party payable	6,679	498	(2,387)	(6,580)
Increase in construction financing	(614)	4,763	8,592	47,350
Proceeds from Homburg Capital Securities A	7b 5,457		31,325	
Net cash from financing activities	<u>14,371</u>	<u>23,195</u>	<u>11,468</u>	<u>53,637</u>
Increase in cash	9,958	1,464	(63)	8
Cash, beginning of period	<u>6,338</u>	<u>16,471</u>	<u>16,359</u>	<u>17,927</u>
Cash, end of period	<u>\$ 16,296</u>	<u>\$ 17,935</u>	<u>\$ 16,296</u>	<u>\$ 17,935</u>

Supplemental cash flow information 9

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

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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### 1. Basis of financial statement presentation

These unaudited consolidated interim financial statements have been prepared by management under International Financial Reporting Standards ("IFRS"), on a basis consistent with those followed in the most recent audited consolidated financial statements. These financial statements include the accounts of Homburg Invest Inc. and its subsidiaries, wholly owned partnerships and partially owned partnerships (collectively the "Company"). These financial statements do not contain all disclosures required by IFRS for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2008.

The preparation of financial statements in conformity with IFRS requires that management 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

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### 2. Receivables and other

	<b>September 30</b>	December 31
	<b><u>2009</u></b>	<u>2008</u>
Trade receivables	\$ 33,109	\$ 61,415
Related party receivable (Note 11h)	10,960	
Notes receivable	1,679	
Prepays	8,515	3,975
Homburg Capital Securities A receivable (Note 7b)	<u>248</u>	
	<b><u>\$ 54,511</u></b>	<b><u>\$ 65,390</u></b>

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### 3. Long term investments

At December 31, 2008, the Company's investment in DIM Vastgoed N.V. ("DIM") consisted of deposit receipts representing 971,462 shares of DIM, a real estate investment company listed on the NYSE Euronext, and 266,214 directly owned shares. On January 9, 2009 (the "Agreement Date"), the Company entered into a Stock Exchange Agreement (the "Exchange Agreement") with Equity One Inc. ("Equity One"), whereby it sold this investment in DIM in exchange for 866,373 shares of Equity One common stock, resulting in a gain on sale of \$166. During the first two quarters of 2009, the Company disposed of all of its shares of Equity One and recognized a gain of \$2,148.

The Company also has an investment in DIM related to the October 2010 closing (the "DIM 2010 Shares"), which consists of deposit receipts representing 766,573 (December 31, 2008 - 766,573) shares of DIM. The fixed purchase price for the DIM 2010 Shares will not be paid, and legal title will not transfer, until October 1, 2010 (the "Settlement Date"). Dividends paid on the DIM 2010 Shares through to the Settlement Date will be retained by the sellers of these shares. Until the Agreement Date, the Company had full voting rights associated with the DIM 2010 Shares.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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### 3. Long term investments (cont.)

Under the Exchange Agreement, the Company also entered into an arrangement to sell to Equity One the DIM 2010 Shares, if and when the Company has acquired ownership thereof. The Exchange Agreement requires Equity One to issue to the Company 536,601 shares of common stock in exchange for 766,573 of DIM's ordinary shares if Equity One's common stock is trading below USD\$20.00. Likewise, the arrangement requires the Company to provide Equity One with 766,573 of DIM's ordinary shares in exchange for 536,601 shares of Equity One common stock if the Equity One stock is trading above USD\$16.50. The Stock Exchange Agreement provides for a time-sensitive cash settlement option, solely at the discretion of Equity One, that takes precedence over the aforementioned stock exchange. This cash settlement option provides Equity One with the ability to pay the Company cash of USD\$11.50 per DIM ordinary share, adjusted for a dividend formula that considers Equity One and DIM dividends, if any. As the exchange is considered to be contingent on factors beyond the Company's control, it has not been accounted for as a sale transaction, and the Company continues to record the DIM 2010 Shares at fair value, which is considered to be the market price of the underlying DIM ordinary shares, subject to such market price not exceeding the floor price of USD\$11.50 per share as established in the Exchange Agreement. At September 30, 2009, the fair value of the DIM 2010 Shares was \$4,662 (December 31, 2008 - \$7,077).

Concurrent with the signing of the Exchange Agreement, the Company entered into a Voting Rights Transfer Agreement which transferred to Equity One the voting rights associated with the DIM 2010 shares until such time as the Exchange Agreement with respect to these shares is consummated.

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### 4. Accounts payable and other liabilities

	<b>September 30</b>	December 31
	<b><u>2009</u></b>	<u>2008</u>
<b>Current amounts</b>		
Trade payables (Note 11b)	\$ 126,942	\$ 127,165
Non construction demand loans	63,000	78,468
Notes payable	14,746	12,318
Prepaid rents and deposits	12,106	17,378
Security deposits	686	1,352
Homburg Capital Securities A (Note 7b)	2,451	
Related party payable (Notes 11e, f, and g)	<u>16,517</u>	<u>18,904</u>
	<b><u>\$ 236,448</u></b>	<b><u>\$ 255,585</u></b>
<b>Non-current amounts</b>		
Long term payables	\$ 24,742	\$ 25,287
Homburg Capital Securities A (Note 7b)	2,037	
Shareholders of DIM Vastgoed N.V., due October 2010	<u>3,573</u>	<u>4,440</u>
	<b><u>\$ 30,352</u></b>	<b><u>\$ 29,727</u></b>

The Company has available credit facilities of \$78,000 of which \$63,000 (December 31, 2008 - \$64,849) is being utilized at September 30, 2009. Of these facilities, \$15,000 (December 31, 2008 - \$15,000) is with a company controlled by the Chairman and Chief Executive Officer.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

#### 5. Long term debt

	September 30 <u>2009</u>	December 31 <u>2008</u>
Secured debt		
Mortgages payable (a)	\$ 2,023,290	\$ 2,160,544
Mortgage bonds payable	<u>209,954</u>	<u>228,368</u>
	<u>2,233,244</u>	<u>2,388,912</u>
Unsecured debt		
Corporate non-asset backed bonds (b)	491,320	522,700
Junior subordinated notes	<u>61,342</u>	<u>67,551</u>
	<u>552,662</u>	<u>590,251</u>
	2,785,906	2,979,163
Deferred financing charges, net of accumulated amortization of \$13,318 (December 31, 2008 - \$12,161)	<u>(23,442)</u>	<u>(27,039)</u>
	2,762,464	2,952,124
Less current portion	<u>132,925</u>	<u>50,776</u>
Long term debt	<u>\$ 2,629,539</u>	<u>\$ 2,901,348</u>

Long term debt has both fixed and variable interest rates. At year end the contractual weighted average interest rate for variable rate long term debt was 2.05% and for fixed rate long term debt was 5.92% (December 31, 2008 - variable - 4.47%, fixed - 5.94%).

Scheduled principal installments and principal maturities for the period ending September 30 are as follows:

	<u>Mortgages</u>		Bonds and Junior Subordinated Notes	Total	Weighted average interest rate of maturing debt
	<u>Normal Principal Installments</u>	<u>Principal Maturities</u>			
2010	\$ 35,312	\$ 50,069	\$ 47,544	\$ 132,925	7.02%
2011	41,383	21,141		62,524	6.61%
2012	41,901	112,314	162,410	316,625	6.15%
2013	37,551	328,840	79,256	445,647	5.10%
2014	23,740	172,604	253,576	449,920	6.31%
Subsequent years	<u>                    </u>	<u>1,158,435</u>	<u>219,830</u>	<u>1,378,265</u>	5.01%
	<u>\$ 179,887</u>	<u>\$ 1,843,403</u>	<u>\$ 762,616</u>	<u>\$ 2,785,906</u>	

It is the Company's intention to seek renewals of the mortgage principal maturities at market rates.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 5. Long term debt (cont.)

##### a) Mortgages payable

Specific investment properties and an assignment of specific rents receivable have been pledged as collateral for mortgages payable, with maturity dates between 2009 and 2020. Included in mortgages payable are the following foreign denominated amounts:

		<b>September 30</b>	December 31
		<b><u>2009</u></b>	<u>2008</u>
USD denominated	USD	\$ <u>91,240</u>	\$ <u>92,335</u>
	CAD	\$ <u>99,095</u>	\$ <u>112,907</u>
EURO denominated	EUR	€ <u>846,911</u>	€ <u>858,243</u>
	CAD	\$ <u>1,342,184</u>	\$ <u>1,479,439</u>

The period end exchange rates have been used to translate the foreign denominated mortgages.

##### b) Corporate non-asset backed bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>	<b>September 30</b>	December 31
				<b><u>2009</u></b>	<u>2008</u>
HB8	May 31, 2013	7.00%	EUR €50,010	\$ <b>79,256</b>	\$ 86,207
HB9	October 31, 2013	7.00%	EUR €60,000	<b>95,088</b>	103,428
HB10	February 15, 2014	7.25%	EUR €100,005	<b>158,488</b>	172,389
HB11	January 15, 2015	7.25%	EUR €100,005	<u><b>158,488</b></u>	<u>160,676</u>
				<u><b>\$ 491,320</b></u>	<u>\$ 522,700</u>

The Corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral. The bonds mature between May 2013 and January 2015 and the Company has the option to redeem any series of bonds at their face amount anytime subsequent to the fifth anniversary of the issue of the bonds. The interest is payable semi-annually on June 30 and December 31. The bonds are issued in Euros and have been translated at period end exchange rates.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 6. Income taxes

Income tax expense (recovery) differs from the amounts which would be obtained by applying the Canadian basic federal and provincial income tax rates and the tax rates for various foreign jurisdictions to income before income taxes. These differences result from the following items:

	<b>Nine Months Ended September 30 2009</b>	Nine Months Ended September 30 2008
Income (loss) before income taxes	<u>\$ (51,851)</u>	<u>\$ 33,537</u>
Combined Canadian federal and provincial statutory income tax rate	<u>31.50 %</u>	<u>32.00 %</u>
Income taxes (recovery)	<b>\$ (16,333)</b>	\$ 10,732
Increase (decrease) in income taxes resulting from:		
Provincial capital tax (net of income tax recovery)	<b>205</b>	820
Canadian tax on foreign income		(4,188)
Corporate rate differential in respect of subsidiaries	<b>4,746</b>	3,755
Non-taxable portion of capital gains and market value changes	<b>(1,828)</b>	(3,482)
Non-deductible (Non-taxable) amounts	<b>(3,497)</b>	269
Non deductible portion of unrealized valuation changes	<b>1,425</b>	712
Effect of rate changes on temporary differences	<b>1,200</b>	(493)
Other	<u><b>1,491</b></u>	<u>8,125</u>
	<u><b>\$ (12,591)</b></u>	<u>\$ 8,125</u>
Income taxes (recovery):		
Current income and capital taxes	<b>\$ 5,303</b>	\$ 5,262
Deferred income taxes	<u><b>(17,894)</b></u>	<u>2,863</u>
	<u><b>\$ (12,591)</b></u>	<u>\$ 8,125</u>

Deferred income tax assets (liabilities) represent the temporary differences between the tax basis of assets and liabilities and the carrying amount of assets and liabilities for financial reporting purposes. The major components of the Company's deferred income tax assets (liabilities) are as follows:

	<b>September 30 2009</b>	December 31 2008
Loss carry forwards and foreign tax credits	<b>\$ 35,879</b>	\$ 14,370
Deferred revenues and costs	<b>3,072</b>	3,621
Unrealized losses	<b>19,236</b>	27,989
Investment properties	<u><b>(146,143)</b></u>	<u>(189,910)</u>
	<u><b>\$ (87,956)</b></u>	<u>\$ (143,930)</u>

The Company's non capital loss carryforwards begin to expire in 2028, and foreign tax credits begin to expire in 2015. As at September 30, 2009, the Company has \$2,847 of unrecognized future tax assets.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 7. Shareholders' equity

	September 30 <u>2009</u>	December 31 <u>2008</u>
Share capital	\$ 691,785	\$ 698,535
Contributed surplus	12,730	7,206
Accumulated other comprehensive income	(3,479)	649
Deficit	(184,634)	(144,658)
Other paid in capital (b)	39,366	11,489
Revaluation surplus	33,547	33,547
	<u>\$ 589,315</u>	<u>\$ 606,768</u>

The following are rates of exchange in effect:

	\$1.00 USD	€1.00 EUR
September 30, 2009	\$ 1.09	\$ 1.58
December 31, 2008	\$ 1.22	\$ 1.72
Average rate for nine months 2009	\$ 1.17	\$ 1.60
Average rate for nine months 2008	\$ 1.02	\$ 1.55

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

	Class A Subordinate <u>Voting Shares</u> (000's)	Class B Multiple <u>Voting Shares</u> (000's)	<u>Stated Capital</u>
<b>Issued and outstanding at December 31, 2007</b>	16,132	3,152	\$ 633,265
Shares acquired under Normal Course Issuer Bid	(51)	(1)	(2,028)
Shares issued for stock dividend			44,788
Issue costs, net of income taxes			(62)
Dividend reinvestment plan	709		22,572
<b>Issued and outstanding at December 31, 2008</b>	16,790	3,151	698,535
Shares acquired under Normal Course Issuer Bid (a)	(171)	(2)	(6,750)
<b>Issued and outstanding at September 30, 2009</b>	<u>16,619</u>	<u>3,149</u>	<u>\$ 691,785</u>

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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#### 7. Shareholders' equity (cont.)

##### a) Normal Course Issuer Bid ("NCIB")

On October 16, 2008, the Company announced plans, under an approved NCIB, to acquire (on a post-consolidation basis) up to 1,051,000 Class A Subordinate Voting shares and 157,500 Class B Multiple Voting shares over a one year period ending October 16, 2009. The NCIB enables the Company to acquire up to 4,754 Class A Shares and up to 100 Class B Shares on any given trading day. Any shares acquired by the Company under the NCIB are being cancelled. During the nine months ended September 30, 2009, the Company acquired and cancelled 171,200 Class A Shares at an average cost of \$7.79 per share, and 1,700 Class B Shares at an average cost of \$7.34 per share.

Class A and Class B shares acquired are being cancelled and removed from share capital at the average issue price at the time of acquisition. The discount on repurchases made in the nine month period ended September 30, 2009 of \$5,404 is credited to contributed surplus.

##### b) Other paid in capital

	<b>September 30</b> <b><u>2009</u></b>	December 31 <u>2008</u>
Balance, beginning of period	\$ 11,489	\$ 11,489
Homburg Capital Securities A Equity component	<b>29,267</b>	
Deferred transaction costs	<b>(1,390)</b>	
Balance, end of period	<b><u>\$ 39,366</u></b>	<b><u>\$ 11,489</u></b>

##### Homburg Capital Securities A

During the nine month period, the Company issued EUR €21,112 (\$33,754) Homburg Capital Securities A ("HCSA"). The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly. The Company has the option to pay any and all of the quarterly interest payments in cash or through the issuance of Class A Preferred shares. The principal amount of HCSA must be paid in cash upon redemption or maturity.

The HCSA are direct unsecured obligations of Homburg Invest Inc. and are subordinate to the Company's existing Mortgage Bonds Payable and Corporate non-asset backed bonds, and rank senior to the Company's Class A Subordinate Voting shares and Class B Multiple Voting shares.

The Company will have the right to redeem the HCSA, at a price equal to 100% of the principal amount of the HCSA to be redeemed, plus accrued and unpaid interest to the date of redemption by giving not less than thirty (30) and no more than sixty (60) days' prior notice on account of:

- certain changes in tax legislation or other tax events subjecting the issuer to additional taxes or other governmental charges;
  - the termination of equity treatment for accounting purposes of future interest obligations under the HCSA or of the Class A Preferred Shares, subject to an insignificant amount of Class A Preferred Shares then issued and outstanding; and
  - on February 27, 2014 or any subsequent interest payment date, in whole or in part.
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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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#### 7. Shareholders' equity (cont.)

##### b) Other paid in capital (cont.)

Any Class A Preferred shares issued will be issued in series and will have the following terms and conditions: par value of one (1) Euro each; non-voting; cumulative dividends at the annual rate of 9.75%, as and when declared by the board of directors; having an indefinite life. The Class A Preferred shares will have a mandatory obligation for the Company to redeem all issued and outstanding Class A Preferred shares for an amount equal to their par value plus any accrued but unpaid dividends thereon at the earlier of:

- the next interest payment date on which the Company elects to pay interest on the HCSA in cash, in whole or in part; and
- the business day falling immediately prior to the date on which the Company redeems, purchases or otherwise acquires any shares or securities in the capital of the Company ranking junior to or pari passu with the HCSA.

In addition, any Class A Preferred shares issued in respect of quarterly interest payments prior to April 1, 2011, will be puttable at the holders' option back to the Company for cash equal to one (1) Euro per Class A Preferred share. The put option with respect to any such Class A Preferred shares issued will expire 30 days from the date of receipt of the Class A Preferred shares.

The Company has determined that the expected life of the HCSA is 50 years through March 31, 2059. The proceeds received on issuance have been allocated to three components:

- The Company has recognized a liability of EUR €97 (\$156) equal to the present value of the HCSA principal that must be repaid at the end of the expected life of the instrument. This liability is being accreted using a rate of 11.0% to its full principal amount over the expected life of the instrument using the effective interest rate method with accretion recognized in interest expense.
  - The Company has recognized a liability of EUR €2,709 (\$4,332) for the present value of the interest payments prior to April 1, 2011, given the holder put option with respect to any Class A Preferred shares received with respect to such interest payments. This liability has been discounted and is being accreted using the effective interest rate method at a rate of 11.0%, with accretion recognized in interest expense.
  - The residual amount of EUR €18,306 (\$29,266) represents the future quarterly interest payments after March 31, 2011, that can be settled by the issuance of Class A Preferred shares at the Company's option. This residual amount has been included in other paid in capital. This amount is also being accreted over the expected life of the instrument using the effective interest rate method with accretion amounts charged directly to retained earnings. Interest payments made after March 31, 2011, whether in cash or Class A Preferred shares, will reduce the other paid in capital amount. The effective interest rate used results in other paid in capital reducing to nil at the end of the expected life of the instrument.
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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 7. Shareholders' equity (cont.)

##### b) Other Paid in Capital (cont.)

Foreign currency gains and losses on the liability components, whether realized or unrealized, will impact earnings each quarter. Foreign currency fluctuations on interest payments made after March 31, 2011, will be charged to retained earnings.

Basic and diluted earnings per share are being reduced by amounts charged directly to retained earnings as such amounts are in preference to earnings available to common shareholders. In addition, cumulative preferred dividends whether paid or unpaid on any Class A Preferred shares that may be outstanding will reduce basic and diluted earnings per share.

Transaction costs related to the HCSA are being allocated to the liability and equity components in proportion to the initial allocation of the proceeds received. The transaction costs related to the liability components are included in deferred financing fees and are being amortized, on an effective interest basis, over the estimated life of the related liability component. The transaction costs related to the equity component are netted against other paid in capital and are being amortized to retained earnings, on an effective interest basis, over the expected life of 50 years for the HCSA.

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#### 8. Earnings (loss) per share

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

	<b>Three Mos. Ended September 30 2009 (000's)</b>	Three Mos. Ended September 30 2008 (000's)	<b>Nine Mos. Ended September 30 2009 (000's)</b>	Nine Mos. Ended September 30 2008 (000's)
Basic				
Class A Subordinate Voting	<b>16,619</b>	16,841	<b>16,699</b>	16,608
Class B Multiple Voting	<b>3,149</b>	<u>3,152</u>	<b>3,149</b>	<u>3,152</u>
	<b><u>19,768</u></b>	<u>19,993</u>	<b><u>19,848</u></b>	<u>19,760</u>
Diluted				
Class A Subordinate Voting	<b>16,619</b>	16,841	<b>16,699</b>	17,096
Class B Multiple Voting	<b>3,149</b>	<u>3,152</u>	<b>3,149</b>	<u>3,152</u>
	<b><u>19,768</u></b>	<u>19,993</u>	<b><u>19,848</u></b>	<u>20,248</u>
The dilution consists of:				
Class A				
Exercise of options				12
DIM payable/Other paid in capital				<u>476</u>
				<b><u>488</u></b>

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 8. Earnings (loss) per share (cont.)

Income (loss) available to Class A and Class B shareholders is calculated as:

	<b>Three Mos. Ended September 30 2009</b>	Three Mos. Ended September 30 2008	<b>Nine Mos. Ended September 30 2009</b>	Nine Mos. Ended September 30 2008
Net income (loss)	\$ (16,604)	\$ (9,151)	\$ (39,260)	\$ 25,412
Less Homburg Capital Securities equity accretion (Note 7(b))	<u>(378)</u>	<u>          </u>	<u>(609)</u>	<u>          </u>
Income (loss) available	<u>\$ (16,982)</u>	<u>\$ (9,151)</u>	<u>\$ (39,869)</u>	<u>\$ 25,412</u>

The weighted average number of shares for 2008 have been retrospectively adjusted to reflect the impact of the 2008 stock consolidation and "in-kind" dividend.

The Company incurred a loss in Earnings (loss) available to Class A and Class B shareholders for the three months ended September 30, 2008 and the three and nine months ended September 30, 2009. As such, the inclusion of any potential shares in the calculation of diluted per share amounts for these periods would be anti-dilutive.

The dilutive effect of outstanding stock options on earnings per share for the nine months ended September 30, 2008 is based on the application of the treasury stock method. Under the treasury stock method, the proceeds from the exercise of such securities are assumed to be used to purchase shares of the same class. The Company's stock options issued in 2007 with an exercise price of \$56.80 are anti-dilutive for all reporting periods. As such, those options have been excluded from the calculation of diluted earnings per share for the respective periods.

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#### 9. Supplemental cash flow information

	<b>Three Mos. Ended September 30 2009</b>	Three Mos. Ended September 30 2008	<b>Nine Mos. Ended September 30 2009</b>	Nine Mos. Ended September 30 2008
Change in non-cash working capital and other				
Receivables and other	\$ 883	\$ (4,316)	\$ (8,988)	\$ (16,566)
Construction properties for resale	(16,631)	(23,549)	(76,849)	(97,028)
Accounts payable and other liabilities	(6,142)	3,012	(9,041)	23,487
Proceeds in excess of earnings on development properties	<u>47,328</u>	<u>23,723</u>	<u>123,415</u>	<u>79,742</u>
	<u>\$ 25,438</u>	<u>\$ (1,130)</u>	<u>\$ 28,537</u>	<u>\$ (10,365)</u>
Interest paid	<u>\$ 26,921</u>	<u>\$ 30,772</u>	<u>\$ 112,549</u>	<u>\$ 117,524</u>
Capital and income taxes paid (received)	<u>\$ (1,337)</u>	<u>\$ 3,707</u>	<u>\$ 1,763</u>	<u>\$ 8,712</u>

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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(CAD \$ thousands except per share amounts)

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## 10. Financial instruments and risk management

### Financial instruments

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

<b>Classification of Financial Assets and Liabilities</b>	<b>Subsequent Measurement</b>	<b>September 30 2009</b>	<b>December 31 2008</b>
<b>Available for Sale</b>	Cost, subject to impairment testing		
- Long term investments : DEGI Homburg Harris Limited Partnership		\$ <u>16,657</u>	\$ <u>10,635</u>
<b>Held for Trading</b>	Fair Value		
- Long term investments: others		\$ 14,710	\$ 29,451
- Cash and cash equivalents		16,652	16,359
- Currency guarantee receivable		9,573	28,165
- Derivative instrument liability		<u>(25,934)</u>	<u>(19,427)</u>
		\$ <u>15,001</u>	\$ <u>54,548</u>
<b>Loans and Receivables</b>	Amortized cost		
- Restricted cash		\$ 22,785	\$ 25,969
- Receivables and other		<u>54,511</u>	<u>65,390</u>
		\$ <u>77,296</u>	\$ <u>91,359</u>
<b>Other Financial Liabilities</b>	Amortized cost		
- Accounts payable and other liabilities		\$ 266,800	\$ 285,312
- Mortgages		2,023,290	2,160,544
- Mortgage bonds		209,954	228,368
- Corporate non-asset backed bonds		491,320	522,700
- Junior subordinated notes		61,342	67,551
- Deferred financing charges		(23,442)	(27,039)
- Construction financing		111,025	102,433
- Liabilities of discontinued operations		<u>28,903</u>	<u>28,903</u>
		\$ <u>3,169,192</u>	\$ <u>3,368,772</u>

The Company holds the following long term financial instruments: mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes, long term payables and long term investments. The mortgages have a fair value of \$2,045,171 (December 31, 2008 - \$2,146,666). The total fair value of all bonds is \$665,601 (December 31, 2008 - \$649,404). The principal amount of the mortgage bonds have been guaranteed against currency fluctuations. The currency guarantee receivable of \$9,753 (December 31, 2008 - \$28,165) is carried at fair value. The junior subordinated notes have a fair value of \$88,060 (December 31, 2008 - \$70,607). The long term investments, with the exception of the investment in DEGI Homburg Harris Limited Partnership, are carried at their fair value. The long term investment in DEGI Homburg Harris Limited Partnership represents a 10% interest in an investment property currently under development. The Company has classified the investment as available for sale and carries it at cost as the investment is not quoted in an active market.

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## Homburg Invest Inc.

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#### 10. Financial instruments and risk management (cont.)

The fair values of long term financial instruments (other than long term investments) 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. The fair value of the Company's investment in Homburg Eastern European Fund B.V. is based on the proportionate share of the reported net asset value of the B.V.. The B.V. prepares its financial statements under International Financial Reporting Standards using the fair value model. As such, the net asset value from the financial statements of the B.V. is reflective of its fair value. The fair value of the other long term investments carried at fair value is based on the quoted market price.

The Company's short term financial instruments, comprising amounts receivable, restricted cash, accounts payable and other liabilities, demand and short term loans, and construction financing are carried at amortized 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) Liquidity risks

Liquidity risk relates to the possibility of insufficient debt and equity financing available to fund the desired growth of the Company and to refinance the current and long term debts as they come due. As a result of the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining the same level of financing on both renewals and new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing.

Liquidity risk also relates to the potential required early retirement of debt. Some of the Company's debt agreements have covenants related to minimum debt to equity ratios, interest coverage ratios, and/or reserve account balance requirements. Breach of any of these covenants could result in the related debt being required to be repaid before its scheduled maturity date. Should that happen, the Company may be required to sell properties at unfavourable prices to satisfy the debt repayment, and the financial condition and results of operations could be adversely affected.

The Company has been successful in the past in raising non-asset backed debt financing and mortgage bond financing on the global market to the extent of \$700,000. The Company will continue to look to these unique financing markets for additional funds; however, there can be no assurance that additional funds will be available.

The Company has received approval from the Dutch regulator Authority Financial Markets ("AFM"), and is now actively marketing the Homburg Capital Securities A, which are 99 year bonds, bearing an interest rate of 9.5% on the face amount of the bond. The Company has targeted between EUR €25,000 to €75,000 (\$39,620 to \$118,860). These funds will be utilized to strengthen the Company's balance sheet. To date, the Company has sold EUR €21,112 (\$33,754) Homburg Capital Securities A.

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## Homburg Invest Inc.

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#### 10. Financial instruments and risk management (cont.)

The Company is significantly levered with a debt to equity ratio of 5.04:1 at September 30, 2009 (December 31, 2008 5.23:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the nine months ended September 30, 2009, Homburg Invest had total interest coverage from continuing operations of 1.22:1 (September 30, 2008 1.62:1) (calculated as total revenue less unrealized fair value gains, property operating expenses, cost of property sales and general and administrative expenses ÷ interest expense).

The following table presents the Company's total contractual obligations at September 30, 2009 for the following five year period:

<b>Contractual Obligations</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Mortgages (secured)					
Amortization	\$ 35,312	\$ 41,383	\$ 41,901	\$ 37,551	\$ 23,740
Principal Maturities	50,069	21,141	112,314	328,840	172,604
Interest	101,015	97,165	91,563	80,417	65,703
Mortgage bonds (secured)					
Principal maturities	47,544		162,410		
Interest	14,731	12,057	6,664		
Corporate non-asset backed bonds and junior subordinated notes (unsecured)					
Principal maturities				79,256	253,576
Interest	40,426	40,426	40,426	39,039	24,141
Construction financing demand loan					
Principal	111,025				
Non construction demand loans					
Principal	63,000				
Homburg Capital Securities A	4,240				
DIM Vastgoed N.V. payable	3,573				
Long term payable- MoTo Objekt Campeon GmbH and CoKG		24,742			
Working capital					
Trade payables, related party payable, income taxes payable and notes payable	166,439				
Trade receivables, related party receivables and notes receivable	(45,748)				
Liabilities of discontinued operations	28,903				
Operating leases	912	4,170	14,607	14,636	14,679
Purchase obligations on construction projects	45,325				
<b>Total</b>	<b>\$ 666,766</b>	<b>\$ 241,084</b>	<b>\$ 469,885</b>	<b>\$ 579,739</b>	<b>\$ 554,443</b>

Interest on demand loans is excluded from the above table as it does not represent a contractual obligation at September 30, 2009. The Company's derivative instrument liability of \$25,934 at September 30, 2009 has also been excluded from the above table. This liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which is settled with the derivative instrument on a net-net basis; interest obligations on such mortgages are therefore shown in the above table at the effective fixed rate, which approximates the timing of the related cash flows.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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#### 10. Financial instruments and risk management (cont.)

The Company anticipates refinancing the mortgage principal maturities of \$50,069 due in the next 12 months. The Company does not anticipate difficulty in refinancing these mortgages at maturity under terms similar to those currently in place based on the current loan to value ratios on these properties.

The Company has significant amounts invested in development properties that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt. The Company expects to finance construction properties currently under development, including interest on principal borrowings, through existing and additional construction loans and additional corporate bond proceeds. First mortgage secured financing on completed construction projects will be replaced with conventional first mortgages, or repaid where the debt is secured by a charge over properties being sold. Existing purchase obligations at September 30, 2009 relate to three construction projects underway to which the Company has purchase commitments of \$45,325. These commitments will be funded from existing cash resources, construction financing and the proceeds from bond and debt issuances. There is a risk that delays in development projects can result in additional costs that may not ultimately be recoverable when development is completed. In addition, if the Company is unable to complete development projects, the current carrying value of its development properties may not be recoverable. Should that happen, the financial condition and results of operations could be adversely affected.

At September 30, 2009, the Company had three secured credit facilities (non construction demand loans) totalling \$78,000 available to it, of which \$63,000 was utilized. Included in these loan facilities is \$15,000 which is with a company controlled by the Chairman and Chief Executive Officer. The Company's non-construction demand loans are secured by first or second charges over various investments properties not to exceed 65% of fair value. The Company anticipates that this financing will remain in place based on current loan to property security values.

The Company requires additional sources of liquidity to meet its remaining significant obligations over the next twelve months including:

- mortgage amortization of \$35,312;
- interest on secured debt of \$115,746 and unsecured debt of \$40,426;
- capital spending requirements on its income property portfolio expected to approximate \$16,000;
- liabilities related to discontinued operations of \$28,903;
- Homburg Capital Securities A and DIM Vastgoed N.V. obligations, totalling \$7,813;
- the mortgage bond principal of \$47,544 maturing in April 2010; and
- potential funding to partially reduce the Company's working capital deficit of \$120,691.

The Company anticipates being able to meet these obligations as they become due in the next 12 months through the following sources of finance:

- cash on hand at September 30, 2009 (\$16,652);
  - the unutilized portion of non-construction demand loans (\$15,000);
  - net cash from operating activities (\$75,461 was generated in the last four quarters);
  - cash generated from continued sales of completed condominium development projects;
  - new financing supported by completed condominium inventory (one such financing in the amount of \$12,000 closed subsequent to September 30, 2009);
  - the potential sale of certain income properties, subject to reasonable prices being attained; and
  - upward refinancing on maturing mortgages.
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## Homburg Invest Inc.

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(CAD \$ thousands except per share amounts)

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#### 10. Financial instruments and risk management (cont.)

Should these efforts not yield sufficient liquidity, there is a risk that the Company may be required to sell properties at unfavourable prices to meet its immediate liquidity needs. Should that happen, the financial condition and results of operations could be adversely affected.

Key obligations for 2011 are significantly lower than 2010, and relate mainly to principal repayments, amortization and interest on secured mortgages and mortgage bonds totalling \$171,746, interest on unserviced debt of \$40,426 and the Company's deferred purchase obligation with respect to MoTo Objekt Campeon GmbH and Co KG (\$24,742). There are no principal debt maturities relating to secured mortgage bonds, unsecured corporate non-asset backed bonds and unsecured junior subordinated notes in 2011.

Operating lease obligations increase significantly in 2011 and beyond reflecting the commencement of the lease described in note 14(c) to the financial statements. The Company has sub-leased 25% of this space at rates that exceed those the Company is obligated to pay, and it is seeking to sublease the remainder of this space prior to the occupancy date to offset the Company's future obligations.

#### b) Interest rate risk

As a result of the current global capital market condition, lenders have tightened their lending standards, and may continue to do so. The effect of this could be that the Company may have more difficulty obtaining similar terms of financing on renewals and on new debt. The Company's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing.

The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. At period end, the Company's debt consists of \$2,434,273 in fixed rate debt and \$525,737 in floating rate debt before deferred financing charges. The Company has minimized its interest rate risk through a liability management policy. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €160,146 (\$253,799) (December 31, 2008 - EUR €161,181 (\$277,843)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the nine month period ended September 30, 2009, the impact on the statement of earnings is a loss of \$8,127 (September 30, 2008 - loss of \$907).

The Company discloses the weighted average rate of maturing long term debt in the Long term debt note to the financial statements. In addition to these long term amounts, the Company has \$174,025 in demand and short term loans which are repayable in less than one year. With all other variables held constant, the Company has determined that a 1% change in interest rates would result in an annualized after tax change of \$3,601 in the Company's earnings as a result of the impact on floating rate borrowings.

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## Homburg Invest Inc.

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#### 10. Financial instruments and risk management (cont.)

##### c) Credit risk

The Company's principal assets are commercial and residential buildings. Credit risk on tenant receivables Credit risk on tenant receivables of \$19,499 at September 30, 2009 (December 31, 2008 - \$ 14,100) 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, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property revenue is earned from international, national and large anchor tenants.

The Company's largest tenant represents 19% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75,000 (\$118,860) letter of guarantee, to the primary lender on the specific property, which would be utilized to mitigate major losses while the Company sought replacement tenants.

The Company's receivables are comprised primarily of current balances owing, except for the Quelle GmbH receivable as discussed in note 16, and the Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. The Company has not experienced any significant receivable write offs and there has been no significant change in the provision during the period.

The remaining significant receivables consist of taxes recoverable from various government agencies and revenue from the sale of development properties. The amounts due from government agencies represent current recoverable amounts and the revenue from the sale of development properties is supported by security letters of credit issued by the purchaser.

##### d) Currency risk

Currency risk arises from assets and liabilities denominated in US Dollars or Euros. The Company mitigates a portion of its currency risk on mortgage bonds denominated in Euros through a guarantee agreement. In support of the currency guarantee the related party has arranged an arms length credit facility agreement. The Company has also established internal hedging relationships between Euro-denominated net investments in foreign operations and Euro-denominated Corporate Non-Asset Backed Bonds and Junior Subordinated Notes. At September 30, 2009, EUR €234,340 (\$371,382) (December 31, 2008 - €234,340 (\$403,955)) of the Company's net investment was hedged with an equal amount of Euro-denominated debt. The hedge is considered to be an effective hedge at September 30, 2009 and December 31, 2008 and will be regularly reviewed to assess the continued effectiveness of the hedging relationship. Currency risk for other amounts denominated in US Dollars and Euros is mitigated by US Dollar and Euro revenue and expense streams related to property rentals.

The operating results of the Company's foreign operations are translated to Canadian dollars for financial statement reporting purposes. Changes to the exchange rates during the reporting period impact those reported results.

With all other variables held constant, the Company has determined that a 10% change in the exchange rate of the US dollar in comparison to the Canadian dollar would result in a decrease (increase) in year to date earnings after income taxes, excluding un-hedged debt, of \$88 and a foreign exchange gain or loss on the un-hedged US dollar denominated Junior Subordinated Notes of \$1,488 after income taxes.

With all other variables held constant, the Company has determined that a 10% change in the exchange rate of the Euro in comparison to the Canadian dollar would result in an decrease (increase) in year to date earnings after income taxes, excluding un-hedged debt, of \$2,487 and a foreign exchange gain or loss on the un-hedged Euro denominated Corporate Non- Asset Backed Bonds of \$10,856 after income taxes.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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#### 10. Financial instruments and risk management (cont.)

The Balance Sheets of the Company's foreign operations are translated to Canadian dollars for financial reporting purposes using the period end exchange rate. The change in exchange rates on the net investment position of these foreign operations is reflected in the Other Comprehensive Income of the Company during the period. As noted above, the Company has established an internal hedging relationship between Euro-denominated debt and net investments in foreign operations. To the extent that the hedges are effective, the foreign currency gain or loss on the hedging amounts of Euro-denominated debt is reflected in the Other Comprehensive Income during the period.

The Company feels that 10% represents a reasonably possible change in existing exchange rates.

##### e) Concentration risk

The Company's largest single tenant represents approximately 19% (December 31, 2008 - 17%) of property revenue for the period. The risk relates to the ability of the Company to replace this revenue stream on a timely basis while maintaining the related property costs. The Company mitigates this risk by entering into long term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The Company's largest tenant has issued a letter of guarantee to the primary lender on the specific property, in an amount representing in excess of 2 years property revenue from this tenant. The Company also maintains their properties to a quality standard that would support timely re-leasing of a property.

##### f) Environmental risk

As owner and manager of real property, Homburg Invest is subject to various United States, European and Canadian federal, provincial, state and municipal laws relating to environmental matters. These laws could hold the Company liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect the Company's ability to sell its real estate or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against the Company. Homburg Invest is not aware of any material non compliance with environmental laws at any of its properties. The Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. The Company has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on its business, financial condition or results of operation.

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#### 11. Related party transactions

The Company's ultimate parent is Homburg Finance A.G., which is controlled by the Chairman and Chief Executive Officer.

- 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 transactions between related parties is as follows:

	<b>Nine Months Ended September 30 2009</b>	Nine Months Ended September 30 2008
Rental revenue earned	\$ <u>(549)</u>	\$ <u>(994)</u>
Interest Income	\$ <u>(561)</u>	\$ <u></u>
Asset and construction management fees incurred	\$ <u>16,966</u>	\$ <u>14,618</u>
Property management fees incurred	\$ <u>4,802</u>	\$ <u>4,485</u>
Insurance incurred	\$ <u>959</u>	\$ <u>1,178</u>
Service fees incurred	\$ <u>4,625</u>	\$ <u>5,590</u>
Property acquisition/disposal fees incurred	\$ <u>135</u>	\$ <u>2,153</u>
Mortgage bond guarantee fees incurred	\$ <u>2,133</u>	\$ <u>2,703</u>
Interest costs incurred	\$ <u>2,103</u>	\$ <u></u>
Tenant improvements	\$ <u>125</u>	\$ <u></u>
Bond and other debt issue costs incurred	\$ <u>1,349</u>	\$ <u>4,907</u>

- b) Included in trade payables are the following balances payable to companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.

	<b>September 30 2009</b>	December 31 2008
Mortgage bond guarantee fees	\$ <u>2,133</u>	\$ <u>323</u>
Management fees	\$ <u>135</u>	\$ <u>83</u>

- c) The Company has approved a resolution authorizing the property manager, a company commonly controlled by the Chairman and Chief Executive Officer, to operate trust accounts on its behalf as required to conduct business of the Company.
- d) Professional services of approximately \$142 (September 30, 2008 - \$142) were purchased from a corporation of which one of the Company's directors is affiliated.
- e) Included in accounts payable is \$10,370 (December 31, 2008 - \$14,966) in payables to companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

September 30, 2009

#### (Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

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#### 11. Related party transactions (cont.)

- f) Also included in accounts payable is a demand note payable plus accrued interest in the amount of EUR €2,374 (\$3,763) (December 31, 2008 - \$3,938) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 5.619% per annum.
  - g) Also included in accounts payable is a demand note payable plus accrued interest in the amount of USD \$2,195 (\$2,384) (December 31, 2008 - \$3,322) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.
  - h) Included in accounts receivable is a demand note receivable plus accrued interest in the amount of EUR €6,916 (\$10,960) (December 31, 2008 - \$NIL) receivable from a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 7.25% per annum.
  - i) The Company has entered into a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, 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 per annum is 2.0% on the Series 2 Bonds, and 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds.
  - j) **Property Management Service Fees**  
The Manager will be entitled to the following fixed fees for its property management services, payable by each Owner, on a monthly basis:
    - i. For investment properties where Single Tenant Net Leases (which is defined as a lease under which the lessee is the sole tenant occupying the relevant property and pays rent to the lessor, as well as generally all other costs and expenses that arise from the use of the property, such as utilities, property taxes, insurance and maintenance expenses) are in place, the Manager will not receive any property management fees;
    - ii. For investment properties situated in Canada or the United States where Single Tenant Triple Net Leases (as such term is defined above) are not in place, fees will be a percentage (as set out in the chart below in relation to the properties located in Canada and the United States) of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries) as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall be equal to the lesser of (i) market rates and (ii) 5% of all cash receipts or net revenue (i.e. total basic rent plus expense recoveries);
    - iii. For investment properties situated in Europe where Single Tenant Triple Net Leases (as such term is defined above) are not in place, fees will be a percentage (as set out in the chart below in relation to the properties located in Europe) of annual rents as generated by the Properties. On a go forward basis, any such fees to be determined in respect of any investment properties acquired from time to time shall equal to the lesser of (i) market rates and (ii) 3.5% of annual rents;
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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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(CAD \$ thousands except per share amounts)

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#### 11. Related party transactions (cont.)

iv. Construction supervision fees equal to 10% of the gross value (net of taxes) of the cost of construction or related construction contracts. Gross costs include the total hard and soft costs (including interest), but exclude land cost. The Manager will be responsible for, including but not limited to, project management and all third party costs for construction management and other related costs; and

v. Leasing fees equal to 10% of the first year net revenue for leases with a term of less than two years, 15% of the first year net revenue for leases of three to four years and 20% of the first year net revenue for leases of five years or longer. The Manager shall pay out of the applicable Owner's funds, mortgage payments, taxes, assessments, premiums on insurance and all other payments related to the operation of the Properties.

#### k) Asset Management Services Fees

The Manager will be entitled to the following fixed fees for its asset management services, payable by each Owner, on a monthly basis:

i. For investment properties situated in Canada or the United States, annual fees of 0.30% of the total asset base, calculated on the quarterly basis for properties where Single Tenant Triple Net Leases (as such term is defined above) are in place, and 0.75% of the total asset base, calculated on a quarterly basis, for properties where a Single Tenant Triple Net Leases (as such term is defined above) are not in place;

ii. For investment properties situated in Europe, annual fees of 0.20% of the total asset base, calculated on a quarterly basis;

iii. Share issue fees of 5% of the total gross proceeds raised in share issues of HII, provided that the Manager will assume all costs related to such share issues (including selling commissions payable to intermediaries, legal fees, marketing expenses, travel expenses and additional out-of pocket expenses). No fees are payable by HII to the Manager with respect to shares issued to a vendor of a property acquired by HII or private placements to related parties; and

iv. Acquisition and disposition fees of 2.5% of the total acquisition or disposition price of the relevant property, provided however that, (i) in the context of a series of transactions forming part of the same transaction, the 2.5% fee is only payable once based on the total acquisition or disposition price, as the case may be; and (ii) the Manager will not be entitled to be reimbursed for any due diligence or execution costs relating to any acquisitions or dispositions, whether successful or unsuccessful, including legal, accounting, financial advisory and brokerage services as well as travel expenses and the cost of obtaining structural, environmental, title and appraisal reports.

Related party transactions are recorded at their exchange amounts, being the amounts agreed to by the related parties.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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(CAD \$ thousands except per share amounts)

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## 12. Commitments

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

2009	\$	884
2010	\$	579
2011	\$	581
2012	\$	610

b) The following is a schedule of the future payments required under an emphyteutic lease, expiring in 2065, on land for an income producing property:

2009	\$	28
2010	\$	112
2011	\$	112
2012	\$	112
2013	\$	112
Subsequent	\$	5,775

c) The following is a schedule of the future minimum lease payments on an operating lease signed by the Company:

2009	\$	NIL
2010	\$	3,479
2011	\$	13,914
2012	\$	13,914
2013	\$	14,567
Subsequent	\$	203,497

The Company is working toward sub-leasing this space prior to the occupancy date; which is expected to be in the fourth quarter of 2010. Any sub-lease would offset the Company's future obligation under the lease commitment.

- d) The Company has a headlease obligation related to a development property that is under contract, which is expected to close late in 2009, for any vacant space that may exist at the date of closing. Based upon current lease commitments for the related space in place at period end, the estimated value of the net headlease obligation is not material.
- e) The Company and its subsidiaries have entered into various property management agreements, expiring between 2010 and 2012. (Note 11a).
- f) The Company has three construction projects underway for which it has signed commitments of \$45,325.
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## **Homburg Invest Inc.**

### **Notes to International Financial Reporting Standards Consolidated Interim Financial Statements**

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#### **13. Contingent liabilities**

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

b) One subsidiary has received a transfer tax assessment and specific other subsidiaries of the Company have been advised of pending potential transfer tax assessments. The tax assessments, both issued and potentially to be issued, would impose transfer tax on the acquisition of certain properties by the subsidiaries. The potential liability would be EUR €10,831 (\$17,165) and would increase the cost of the applicable properties should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 (\$2,853); an additional EUR €7,831 (\$12,411) was indicated for potential assessment, and to date no additional assessments have been received. The remaining amount of EUR €1,200 (\$1,901) relates to an acquisition in 2008, and is similar in structure to the acquisition that has already been assessed. The Company has reviewed this matter, has received legal advice, and believes it is not required to pay the transfer tax on any of these acquisitions. Accordingly, the Company has not recorded any of the proposed transfer tax in its consolidated financial statements.

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#### **14. Comparative figures**

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted for the current. The most significant reclassifications include the presentation of a classified balance sheet, adjustments to the comparative consolidated balance sheet for preliminary business combination purchase price allocations finalized in 2008 and adjustments to the format of the consolidated income statement.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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### 15. Segmented Information

The Company's investment properties are geographically segmented amongst Canada, The United States of America (US), and Europe. The European properties are located in Germany, the Baltic region, and The Netherlands. The Company has also provided supplemental segmented information based on industry type.

Operating performance evaluation is primarily based on the net operating income of properties, which is property revenue less property operating expenses. Expenses such as interest, amortization, and general and administrative are centrally managed, and as such have not been allocated to the segments.

The Company also derives significant revenues and costs from the sale of properties developed for resale. These developed and development properties are all located in Canada, and as such all revenues and costs, and development property assets are applicable to that geographic segment.

The following provides a summary of key information of the Company's residential and commercial operating segments:

#### Nine Months Ended September 30, 2009

	Germany	Netherlands	The Baltics	Canada	US	Total
Property revenue	\$ 68,909	\$ 32,968	\$ 16,787	\$ 109,999	\$ 14,022	\$ 242,685
Operating expenses	<u>3,481</u>	<u>4,368</u>	<u>5,135</u>	<u>54,867</u>	<u>4,210</u>	<u>72,061</u>
	<u>\$ 65,428</u>	<u>\$ 28,600</u>	<u>\$ 11,652</u>	<u>\$ 55,132</u>	<u>\$ 9,812</u>	<u>\$ 170,624</u>

#### Nine Months Ended September 30, 2008

	Germany	Netherlands	The Baltics	Canada	US	Total
Property revenue	\$ 60,964	\$ 33,421	\$ 14,261	\$ 107,724	\$ 12,202	\$ 228,572
Operating expenses	<u>950</u>	<u>3,569</u>	<u>3,748</u>	<u>48,979</u>	<u>3,357</u>	<u>60,603</u>
	<u>\$ 60,014</u>	<u>\$ 29,852</u>	<u>\$ 10,513</u>	<u>\$ 58,745</u>	<u>\$ 8,845</u>	<u>\$ 167,969</u>

#### September 30, 2009

	Germany	Netherlands	The Baltics	Canada	US	Total
Investment property	\$ 1,054,187	\$ 629,792	\$ 247,004	\$ 1,190,113	\$ 176,101	\$ 3,297,197
Mortgages payable	<u>697,330</u>	<u>424,094</u>	<u>209,432</u>	<u>593,339</u>	<u>99,095</u>	<u>2,023,290</u>
Mortgage bonds payable	<u>31,712</u>	<u></u>	<u></u>	<u>178,242</u>	<u></u>	<u>209,954</u>

#### December 31, 2008

	Germany	Netherlands	The Baltics	Canada	US	Total
Investment property	\$ 1,197,085	\$ 685,025	\$ 280,975	\$ 1,189,984	\$ 196,675	\$ 3,549,744
Mortgages payable	<u>766,780</u>	<u>471,324</u>	<u>228,818</u>	<u>580,714</u>	<u>112,908</u>	<u>2,160,544</u>
Mortgage bonds payable	<u>34,493</u>	<u></u>	<u></u>	<u>193,875</u>	<u></u>	<u>228,368</u>

At September 30, 2009, the Germany segment included one (September 30, 2008 - one) tenant that individually represented 19% (September 30, 2008 - 17%) of the Company's consolidated property revenue for the period.

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## Homburg Invest Inc.

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(CAD \$ thousands except per share amounts)

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#### 15. Segmented information (cont.)

##### Nine Months Ended September 30, 2009

	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 71,497	\$ 29,835	\$ 133,560	\$ 7,793	\$ 242,685
Operating expenses	<u>31,545</u>	<u>2,496</u>	<u>33,105</u>	<u>4,915</u>	<u>72,061</u>
	<u>\$ 39,952</u>	<u>\$ 27,339</u>	<u>\$ 100,455</u>	<u>\$ 2,878</u>	<u>\$ 170,624</u>

##### Nine Months Ended September 30, 2008

	Retail	Industrial	Office	Residential	Total
Property revenue	\$ 66,844	\$ 30,717	\$ 123,045	\$ 7,966	\$ 228,572
Operating expenses	<u>26,257</u>	<u>2,493</u>	<u>27,648</u>	<u>4,205</u>	<u>60,603</u>
	<u>\$ 40,587</u>	<u>\$ 28,224</u>	<u>\$ 95,397</u>	<u>\$ 3,761</u>	<u>\$ 167,969</u>

	Retail	Industrial	Office	Residential	Total
September 30, 2009					
Investment property	<u>\$ 698,029</u>	<u>\$ 466,777</u>	<u>\$ 2,038,376</u>	<u>\$ 94,015</u>	<u>\$ 3,297,197</u>
Mortgages payable	<u>\$ 251,799</u>	<u>\$ 381,036</u>	<u>\$ 1,317,308</u>	<u>\$ 73,147</u>	<u>\$ 2,023,290</u>
Mortgage bonds payable	<u>\$ 47,544</u>	<u>\$ 24,636</u>	<u>\$ 7,075</u>	<u>\$</u>	<u>\$ 79,255</u>

	Retail	Industrial	Office	Residential	Total
December 31, 2008					
Investment property	<u>\$ 861,251</u>	<u>\$ 611,774</u>	<u>\$ 1,982,744</u>	<u>\$ 93,975</u>	<u>\$ 3,549,744</u>
Mortgages payable	<u>\$ 261,455</u>	<u>\$ 415,051</u>	<u>\$ 1,409,867</u>	<u>\$ 74,171</u>	<u>\$ 2,160,544</u>
Mortgage bonds payable	<u>\$ 51,714</u>	<u>\$ 26,761</u>	<u>\$ 7,734</u>	<u>\$</u>	<u>\$ 86,209</u>

At September 30, 2009 Mortgage bonds payable total \$209,954, exclusive of the currency guarantee receivable of \$9,753. Of this amount \$130,699 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$79,255 is allocated to specific segments above.

At December 31, 2008 Mortgage bonds payable total \$228,368, exclusive of the currency guarantee receivable of \$28,165. Of this amount \$142,159 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$86,209 is allocated to specific segments above.

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## Homburg Invest Inc.

### Notes to International Financial Reporting Standards Consolidated Interim Financial Statements

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(CAD \$ thousands except per share amounts)

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#### 16. Subsequent events

a) As part of the Company's continual assessment of its portfolio, the Company has signed sales agreements for 4 investment properties located in Canada. The sales are expected to be completed in the fourth quarter of 2009 and first quarter of 2010; subject to the purchasers completing due diligence. The properties are being sold for a total of \$16,630 less selling costs and have a carrying value of \$11,013. There are first mortgage charges against the properties totaling \$6,618 which will be settled as part of the dispositions. The impact of the disposition of these properties is immaterial to ongoing property revenue, property operating expense, and pretax earnings (loss).

b) Subsequent to period end the Company has closed on a Condominium Inventory loan in the amount of \$12,000.

c) Subsequent to period end, the Administrator of Arcandor AG has decided to liquidate its mail order business operating as Quelle GmbH, which is a tenant of the Company. The Administrator has given the Company notice of its intention to terminate the remaining lease of Quelle GmbH effective December 31, 2009. The Company will rank as an unsecured creditor for the remaining amount due under the terms of the lease. The Company has filed a claim with the Administrator for Approximately EUR 80,0000. It is unknown how much, if any, the Company will recover in their process.

The mortgage on the property requires payment of interest and principal on a quarterly basis, and the Company has made the required payment in October 2009. The next required payment is January 2010. However, since Quelle GmbH has not paid all rent since filing to open preliminary insolvency proceedings, the Company has received a notice of default from the lender dated July 23, 2009 with respect to required reserves. The Administrator has paid the rent in full for September, October, and November. It is the Company's expectation that the Administrator will pay the full rent for December 2009 as well. The Company will not rectify the default until the status of the Quelle GmbH preliminary insolvency proceedings clarify the status of Quelle GmbH moving forward.

At period end, the specific property has a carrying value of \$182,145, and an outstanding mortgage balance of \$163,396 and a rent receivable of \$5,605.

The Company is working with the Lender and local developers at options to redevelop or release the property.

Under the original purchase agreement, the Company has recourse to the vendor for certain losses. The Company will continue to monitor the situation, to determine if it has suffered a loss that can be recovered under the terms of these guarantees.

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## **Homburg Invest Inc.**

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#### **17. Changes in accounting policies and future applicable accounting standards**

The accounting policies adopted are consistent with those of the year ended December 31, 2008 except as follows:

##### **Investment Property**

IAS 40 Investment Property has been amended to include property that is being constructed or developed for future use as investment property. Previously, when investment property was being constructed or developed, that property was accounted for under IAS 16 Property, Plant and Equipment until construction or development was complete. Under IAS 16, the Company chose to carry the property using the Revaluation model, to the extent that fair value could be reliably determined, until completion, at which time the property was transferred to IAS 40. Under IAS 40, the Company has chosen the fair value model, resulting in investment properties being carried at fair value, with adjustment through the Income Statement. The amendment to IAS 40 results in investment properties under construction or development being within the scope of IAS 40 and, to the extent that fair value is reliably determinable, the carrying value of such properties is adjusted to fair value. To the extent that fair value is not reliably determinable, the property is carried at cost until either the fair value becomes reliably determinable or construction is completed, whichever is earlier. The application of the amendment is to be applied prospectively for annual periods beginning on or after January 1, 2009. This amendment had no impact on the financial results of the current period.

##### **Share-based Payment**

IFRS 2 Share-based Payment is used for determining the accounting for the Company's stock based compensation. IFRS 2 has been amended to clarify vesting conditions and the accounting treatment of cancellations. The Company's stock options issued in 2008 included certain options that are subject to vesting periods. The amendments are effective for annual periods beginning on or after January 1, 2009. The application of the amendment is to be applied prospectively for annual periods beginning on or after January 1, 2009. This amendment had no impact on the financial results of the current period.

##### **Property Developed for Resale**

International Financial Reporting Interpretations Committee (IFRIC) 15 Agreements for the Construction of Real Estate has been issued to clarify when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between the developer and a buyer is reached before the construction of the real estate is completed. This Interpretation had no impact on the financial results of the current period.

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#### **17. Changes in accounting policies and future applicable accounting standards (cont.)**

##### **Hedges of a Net Investment in a Foreign Operation**

IFRIC 16 Hedges of a Net Investment in a Foreign Operation has been issued to provide guidance to entities that hedge foreign currency risk on net investments in foreign operations. IFRIC 16 specifies foreign currency risks that qualify for hedge accounting and the amount that can be designated; where within the corporate structure a hedging instrument can be held; and, the amount to be reclassified to the income statement upon disposal of the hedged foreign operation. This Interpretation is applicable for annual periods beginning on or after October 1, 2008 on a prospective basis. This Interpretation had no impact on the financial results of the current period.

##### **Borrowing Costs**

IAS 23 Borrowing Costs has been amended and is effective for fiscal years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs as they relate to a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. The Company currently follows a policy of capitalizing borrowing costs related to development properties. A qualifying asset excludes investment properties carried at fair value. Due to the amendments to IAS 40 to include development properties within the fair value model, they are no longer qualifying assets. However, the revised IAS 23 allows a presentation in the income statement for borrowing costs as though they were capitalized to the development properties. This amendment had no impact on the financial results of the current period.

##### **Business Combinations**

IFRS 3 Business Combinations has been amended and is effective for fiscal years beginning on or after July 1, 2009. The amendments to IFRS 3 and IAS 27 must be adopted concurrently. The standard clarifies the distinction between a business combination and an asset acquisition and requires that transaction costs incurred on business combinations be expensed when incurred. The Company does not currently follow a practice of expensing transaction costs, and is evaluating the impact of this new standard on its consolidated financial statements.

##### **Consolidated and Separate Financial Statements**

IAS 27 Consolidated and Separate Financial Statements has been amended and is effective for fiscal years beginning on or after July 1, 2009. The amendments to IAS 27 and IFRS 3 must be adopted concurrently. The standard clarifies the circumstances under which an entity must consolidate another entity; the accounting for changes in the level of ownership of a subsidiary, including loss of control; and, the required disclosure regarding the nature of the relationship. The Company is evaluating the impact of this new standard on its consolidated financial statements.

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