

Homburg Invest Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
International Financial Reporting Standards
Six Months Ended June 30, 2010

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Homburg Invest Inc. ("Homburg Invest", "HII" or the "Company") audited consolidated financial statements and accompanying notes for the year ended December 31, 2009 prepared under International Financial Reporting Standards ("IFRS").

In compliance with National Instrument 51-102 of the Canadian Securities Administrators, Management notifies readers that the unaudited interim consolidated financial statements and Management's Discussion and Analysis ("MD&A") for the period ended June 30, 2010 and June 30, 2009, have not been reviewed by the Company's external auditors.

DATE OF MD&A

August 13, 2010

FORWARD LOOKING ADVISORY

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2010 objectives, our strategies to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue", or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

This discussion contains forward-looking statements concerning capital expenditures, cost reductions and operating and financial improvements. Such statements are based on Homburg Invest Inc.'s management's assumptions and beliefs in light of the information currently available to them. These statements are subject to inherent uncertainties and risks, including, but not limited to: general business and economic conditions in the Company's operating regions; pricing pressures and other competitive factors; results of the Company's ongoing efforts to reduce costs; and the availability and terms of financing. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements. Homburg Invest Inc., except as required by applicable law, undertakes no obligation to publicly update or revise any forward looking statements.

OVERVIEW

During 2009, the Company outlined a strategy to spin off assets into four geographically based companies and a development company. On May 25, 2010 the Company completed the first step in accomplishing this strategy by selling its portfolio of Canadian income producing investment properties to Homburg Canada Real Estate Investment Trust ("HCREIT"). At June 30, 2010 the Company retained a 41.26% equity interest in the HCREIT units. The results discussed in this MD&A are reflective of the restatement relating to the disposal of the Canadian properties and the subsequent equity pickup of the HCREIT investment.

PROPERTIES OWNED

HII is a public real estate company owning 138 properties with an estimated fair value of \$1.8 billion and 10.8 million square feet of space as at June 30, 2010 in three main asset classes (office, retail, and industrial) and in four main geographical areas (Germany, The Netherlands, the Baltic States (Latvia, Estonia and Lithuania) and North America).

	June 30, 2010 (Millions, except for properties)			December 31, 2009 (Millions, except for properties)		
	Buildings	Fair Value	Gross Sq.Ft.	Buildings	Fair Value	Gross Sq.Ft.
By geographical segment						
Germany	18	\$ 742.2	5.1	18	\$ 872.2	5.1
The Netherlands	32	440.8	3.7	32	515.9	3.7
Baltic States	53	199.8	1.0	53	234.7	1.0
North America	20	144.5	1.0	130	1,116.6	9.9
Sub total	123	1,527.3	10.8	233	2,739.4	19.7
By property type						
Office	77	\$ 1,129.5	5.1	101	\$ 1,743.3	6.8
Retail	16	189.7	1.0	82	654.8	5.8
Residential				12	56.1	0.7
Industrial	30	208.1	4.7	38	285.2	6.4
Sub total	123	1,527.3	10.8	233	2,739.4	19.7
Land and property held for future development (a)	7	124.5		8	117.1	
Construction properties being developed for resale (b)	5	64.2		6	74.0	
Investment property under construction (c)	3	124.5		2	128.8	
Total	138	\$ 1,840.5	10.8	249	\$ 3,059.3	19.7

* Numbers of buildings, units and gross square footage excludes assets available for sale.

(a) Land and property held for future development - a 146 acre parcel of land on the outskirts of Calgary, Alberta, intended to be developed into single family and multi residential units; a 140 acre parcel of land on the outskirts of Calgary, Alberta, intended to be developed into single family and multi residential units; a

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parcel of land in Calgary, Alberta that the Company intends to develop into a condominium complex containing 214 units; a 217 acre parcel of land in Calgary, Alberta with intent to be developed into commercial properties; a 39 acre parcel of land in Calgary, Alberta that the Company intends to develop primarily into approximately 600 single family dwellings; a one third interest in a 777 acre parcel of land on the outskirts of Calgary, Alberta intended to be developed into a mix of commercial, industrial, single family and multi-residential units; a parcel of land in Montreal, Quebec; and a 4 story building in Montreal, Quebec.

- (b) Construction properties being developed for resale - 5 condominium units in Calgary, Alberta (Castello); 23 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); 65 condominium units in Grande Prairie, Alberta (Inverness Estates); 18 condominium units in Charlottetown, Prince Edward Island (Pownell Street); and a one third interest in 95 condominium units in Montreal, Quebec (333 Sherbrooke East);
- (c) Investment property under construction - a parcel of land in Calgary, Alberta that will be developed into a seven building office campus; a parcel of land in Charlottetown, Prince Edward Island that will be developed into a hotel; and a 458 unit apartment complex in Calgary, Alberta (Kai Towers).

NON-IFRS FINANCIAL MEASURES

The MD&A includes measures widely accepted within the real estate industry which are not defined by International Financial Reporting Standards ("IFRS"). These measures include Net Operating Income ("NOI"), Funds From Operations ("FFO") and Funds From Operations per share. These are not defined measures calculated in accordance with IFRS and may not be comparable to similar measures presented by other issuers. The Company considers these amounts to be measures of operating and financial performance.

- a) NOI is calculated as Property Revenue less Property Operating Expenses.
- b) FFO is presented by the Company as net income (loss) from continuing operations adjusted for amortization, deferred and capital income taxes (recovery), unrealized and realized valuation changes, fair value change in financial instruments, loss (gain) on derivative instruments, goodwill impairment loss, impairment loss on development properties, foreign exchange loss (gain), and changes in provisions.
- c) FFO per share is calculated as Funds From Operations divided by either the basic or diluted weighted average number of shares.

The following table reconciles IFRS net income (loss) to FFO for the three and six month periods ended June 30, 2010 and 2009:

	3 Months Ended June 30, 2010	6 Months Ended June 30, 2010	3 Months Ended June 30, 2009	6 Months Ended June 30, 2009
	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>	<i>(Millions)</i>
Net income (loss) from continuing operations	\$ (9.6)	\$ 6.7	\$ (28.4)	\$ (25.4)
Add (deduct):				
Unrealized valuation changes	2.1	1.1	40.1	37.9
Realized valuation changes	0.2	(4.3)	(0.6)	(2.3)
Amortization of financing costs	0.9	2.1	0.9	1.8
Deferred and capital income taxes (recovery)	3.7	3.5	(6.8)	(8.2)
Foreign exchange gain	(6.5)	(19.7)	(3.6)	(10.8)
Loss (gain) on derivative instruments	1.8	6.7	(3.9)	4.8
Change in provisions	2.4	2.4		
Fair value change in financial instruments	(0.3)	(0.7)	(2.3)	0.9
Funds from operations (FFO)	(5.3)	(2.2)	(4.6)	(1.3)
Add (deduct): net income (loss) on sale of properties developed for resale	(2.7)	(2.5)	(10.3)	(8.7)
FFO, net of sale of properties developed for resale	\$ (2.6)	\$ 0.3	\$ 5.7	\$ 7.4

Funds from operations (FFO) from continuing operations, net of the sale of properties developed for resale, were \$0.3 million for the six-month period ended June 30, 2010, compared to restated \$7.4 million recorded in the same period in 2009. This difference of \$7.7 million, is the result of the \$11.7 million decrease in property revenue, and the \$10.4 million decrease in NOI, which translates into a \$7.3 million impact on FFO from the decrease in the average value of the Euro against the Canadian dollar which moved from \$1.61 for the first six months of 2009 to \$1.38 for the first six months of 2010. Outside of the foreign exchange impact of \$7.3 million, FFO was also impacted by the previously discussed reduction in property revenue of EUR 6.3 million.

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Foreign Exchange Rates

The results of the Company's international operations are impacted by fluctuations in average and period end foreign exchange rates, mainly from the Euro and to a lesser extent by the US dollar. A discussion of the Company's approach to managing currency risk is included in the section entitled "Liquidity, Capital Resources and Capital Commitments" later in this MD&A. The prevailing quarterly average and year-end foreign exchange rates over the past three years were as follows:

	Q2 Average Rate		Q1 Average Rate		Q4 Average Rate		Q3 Average Rate	
EUR : CAD	2010	1.37676	2010	1.44309	2009	1.58706	2009	1.59533
EUR : CAD	2009	1.60749	2009	1.62509	2008	1.56127	2008	1.55022
% Change		(14.4)%		(11.2)%		1.7%		2.9%
USD : CAD	2010	1.03479	2010	1.04145	2009	1.14172	2009	1.16997
USD : CAD	2009	1.20559	2009	1.24298	2008	1.06669	2008	1.01855
% Change		(14.2)%		(16.2)%		7.0%		14.9%

	Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	Q2 2010	1.27990	Q1 2010	1.37140	Q4 2009	1.50410	Q3 2009	1.58480
EUR : CAD	Q1 2010	1.37140	Q4 2009	1.50410	Q3 2009	1.58480	Q2 2009	1.62400
% Change		(6.7)%		(8.8)%		(5.1)%		(2.4)%
USD : CAD	Q2 2010	1.04840	Q1 2010	1.01920	Q4 2009	1.04940	Q3 2009	1.08610
USD : CAD	Q1 2010	1.01920	Q4 2009	1.04940	Q3 2009	1.08610	Q2 2009	1.15600
% Change		2.9%		(2.9)%		(3.4)%		(6.0)%

	Q2 Average Rate		Q1 Average Rate		Q4 Average Rate		Q3 Average Rate	
EUR : CAD	2009	1.60749	2009	1.62509	2008	1.56127	2008	1.55022
EUR : CAD	2008	1.54209	2008	1.50465	2007	1.46919	2007	1.48570
% Change		4.2%		8.0%		6.3%		4.3%
USD : CAD	2009	1.20559	2009	1.24298	2008	1.06669	2008	1.01855
USD : CAD	2008	1.00752	2008	1.00465	2007	1.07440	2007	1.10606
% Change		19.7%		23.7%		(0.7)%		(7.9)%

	Quarter End Rate		Quarter End Rate		Quarter End Rate		Quarter End Rate	
EUR : CAD	Q2 2009	1.62400	Q1 2009	1.65040	Q4 2008	1.72380	Q3 2008	1.50010
EUR : CAD	Q1 2009	1.65040	Q4 2008	1.72380	Q3 2008	1.50010	Q2 2008	1.59740
% Change		(1.6)%		(4.3)%		14.9%		(6.1)%
USD : CAD	Q2 2009	1.15600	Q1 2009	1.24960	Q4 2008	1.22280	Q3 2008	1.03820
USD : CAD	Q1 2009	1.24960	Q4 2008	1.22280	Q3 2008	1.03820	Q2 2008	1.01110
% Change		(7.5)%		2.2%		17.8%		2.7%

Euro-Canadian dollar exchange rate: Fluctuations in the Euro exchange rates, compared to the Canadian dollar, impact the results of the Company's significant European operations located in Germany, The Netherlands, and the Baltic States, as well as the Company's unhedged Euro denominated debt which consisted of €100.0 million at June 30, 2010 and €100.0 million at December 31, 2009. The average rate for Q2 2010 of \$1.38 was 14.4% lower than the comparative period average rate of \$1.61 which had an unfavourable impact on the results of the Company's European operations when comparing Q2 2010 to Q2 2009. The closing rate at June 30, 2010 of \$1.28 was 6.7% lower than the closing rate of \$1.50 at December 31, 2009, which favourably reduced the Canadian dollar equivalent amount of the Company's unhedged Euro denominated debt which stood at €100.0 million at June 30, 2010.

US dollar-Canadian dollar exchange rate: Fluctuations in the US dollar exchange rates compared to the Canadian dollar impact the results of the Company's operations located in the USA. However, the impacts are generally insignificant due to the relative size of the USA operations which comprised 8.1% of NOI in Q2 2010 and 6.6% of NOI in Q2 2009. Fluctuations in the US dollar also impact the Company's unhedged US dollar denominated debt which consisted of US\$20 million at both June 30, 2010 and December 31, 2009.

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SUMMARY OF QUARTERLY RESULTS

	Jun 30 2010	Mar 31 2010	Three Months Ended				Dec 31 2008*	Sep 30 2008*
			Dec 31 2009	Sep 30 2009	Jun 30 2009	Mar 31 2009		
	<i>(Millions, except for per share amounts)</i>							
Property revenue	\$ 31.2	\$ 35.5	\$ 44.8	\$ 41.3	\$ 47.9	\$ 43.5	\$ 81.9	\$ 76.5
Sale of properties developed for resale	5.2	5.5	61.7	8.8	15.6	24.2	15.5	39.9
Realized valuation changes	(0.2)	4.5	(6.8)		0.6	1.6	0.4	
Unrealized valuation changes	(2.1)	(3.0)	(549.3)	(11.0)	(40.1)	(6.0)		
Other income	4.6	13.5	10.2	2.3	10.6	(4.4)		1.1
Total revenue and other gains	38.7	56.0	(439.4)	41.4	34.6	58.9	97.8	117.5
Net operating income	\$ 26.6	\$ 30.3	\$ 31.2	\$ 35.3	\$ 39.3	\$ 38.4	\$ 54.1	\$ 55.8
Earnings (loss) before taxes-								
Continuing Operations	\$ (4.3)	\$ 9.6	\$ (386.3)	\$ (30.2)	\$ (34.4)	\$ 4.1	\$ (350.0)	\$ (4.0)
Per Share - Basic	\$ (0.25)	\$ 0.44	\$ (19.57)	\$ (1.55)	\$ (1.75)	\$ 0.21	\$ (17.52)	\$ (0.20)
Per Share - Diluted	\$ (0.25)	\$ 0.44	\$ (19.57)	\$ (1.55)	\$ (1.75)	\$ 0.21	\$ (17.52)	\$ (0.20)
Net earnings (loss) - Continuing Operations	\$ (9.6)	\$ 6.2	\$ (336.8)	\$ (21.6)	\$ (28.4)	\$ 3.0	\$ (302.1)	\$ (9.2)
Per Share - Basic	\$ (0.51)	\$ 0.31	\$ (17.04)	\$ (1.09)	\$ (1.44)	\$ 0.15	\$ (15.12)	\$ (0.46)
Per Share - Diluted	\$ (0.51)	\$ 0.31	\$ (17.04)	\$ (1.09)	\$ (1.44)	\$ 0.15	\$ (15.12)	\$ (0.46)
Net earnings - Discontinued Operations	\$ (103.1)	\$ 11.5	\$ (73.2)	\$ 5.0	\$ 0.2	\$ 2.5	\$	\$
Per Share - Basic	\$ (5.09)	\$ 0.58	\$ (3.71)	\$ 0.25	\$ 0.01	\$ 0.13	\$	\$
Per Share - Diluted	\$ (5.09)	\$ 0.58	\$ (3.71)	\$ 0.25	\$ 0.01	\$ 0.13	\$	\$
Net earnings (loss)	\$ (112.7)	\$ 17.8	\$ (410.0)	\$ (16.6)	\$ (28.2)	\$ 5.5	\$ (302.1)	\$ (9.2)
Per Share - Basic	\$ (5.60)	\$ 0.89	\$ (20.74)	\$ (0.84)	\$ (1.43)	\$ 0.28	\$ (15.12)	\$ (0.46)
Per Share - Diluted	\$ (5.60)	\$ 0.89	\$ (20.74)	\$ (0.84)	\$ (1.43)	\$ 0.28	\$ (15.12)	\$ (0.46)
Funds from operations, net of gross income (loss) from the sale of properties developed for resale	\$ (2.6)	\$ 10.1	\$ 18.7	\$ 11.3	\$ 13.8	\$ 9.3	\$ 2.9	\$ 10.1
Per Share - Basic	\$ (0.13)	\$ 0.50	\$ 0.94	\$ 0.57	\$ 0.69	\$ 0.47	\$ 0.14	\$ 0.50
Per Share - Diluted	\$ (0.13)	\$ 0.50	\$ 0.94	\$ 0.57	\$ 0.69	\$ 0.47	\$ 0.14	\$ 0.50
Total assets	\$ 2,192.5	\$ 3,096.9	\$ 3,265.5	\$ 3,880.6	\$ 3,962.3	\$ 4,081.2	\$ 4,144.6	\$ 4,058.0
Total long term debt	\$ 1,793.7	\$ 2,493.5	\$ 2,641.7	\$ 2,762.5	\$ 2,816.0	\$ 2,864.7	\$ 2,952.1	\$ 2,593.4
Dividend declared per share	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ NIL	\$ 2.25

*2008 quarterly information has not been restated for discontinued operations for the purpose of this MD&A.

Second Quarter Result

Property revenues from continuing operations were of \$31.2 million during the second quarter ended June 30, 2010, compared to restated \$47.9 million for the same quarter in 2009. The decrease is due to revenue in Europe down by EUR 6.3 million, due to the loss of former tenant Quelle GmbH which declared bankruptcy and vacated an industrial property in Nurnberg Germany on December 31, 2009, and other current vacancies in the European portfolio. Property revenues were also impacted by \$7.3 million resulting from the 14.4% decrease in the average value of the Euro against the Canadian dollar in the second quarter of 2010 compared to the same quarter last year, which followed the \$4.3 million or 11.2% decrease in the first quarter of 2010, over the first quarter of 2009.

Net operating income (NOI) from continuing operations was \$26.6 million in the second quarter of 2010, compared to restated \$39.3 million in the second quarter of 2009. The decrease is primarily due to EUR 4.3 million less in European NOI for the reasons outlined above, and \$6.3 million due to the decrease in the average value of the Euro against the Canadian dollar in the second quarter of 2010 compared to the same period in 2009.

The Company incurred loss before taxes from continuing operations for the second quarter of 2010 of \$4.3 million (\$0.25 per share), compared to loss before taxes of \$34.4 million in the same period in 2009 (\$1.75 per share), a variance of \$30.1 million. The decrease relates primarily to the following:

- NOI was \$12.7 million lower in Q2 2010 compared to Q2 2009, primarily due to the property in Germany that was vacated by the former tenant, Quelle, on December 31, 2009, as well as an 4.6% decrease in the average Euro exchange rate compared to the Canadian dollar;
- A net decrease in fair value of investment properties of \$2.1 million in Q2 2010 compared to a net decrease in fair market value of \$40.1 million in Q2 2009 largely due to a \$34.6 million adjustment in fair value to two Germany properties after an independent external analysis.
- The Company realized a \$2.7 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q2 2010, compared to a \$10.3 million gross loss in Q2 2009, a variance of \$7.6 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore revenues and costs recorded in Q2 2009 are not recurring, as well as lower sales activity on condominium units in Q2 2010.

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- A fair value gain on investments of \$0.3 million in Q2 2010, compared to a gain of \$2.3 million in Q2 2009, a variance of \$2.0 million, resulting from changes in the market prices on the Company's quoted investments;
- During the quarter, the Company disposed of its Canadian operating segment, which resulted in a net loss from the discontinued operations after tax of \$91.6 million.
- A foreign exchange gain of \$6.5 million was recorded in Q2 2010, compared to a gain of \$3.6 million in Q2 2009, a variance of \$2.9 million. The gain in Q2 2010 mainly resulted from a 6.7% strengthening of the Canadian dollar compared to the Euro, from \$1.50:€1 at December 31, 2009 to \$1.28:€1 at March 31, 2010, which decreased the value of the Company's €100 million of unhedged debt by \$22.0 million.
- Lower interest expense in Q2 2010 by \$5.7 million over Q1 2009, mainly due to the reduction of debt by \$848.0 million from \$2,641.7 million at June 30, 2009 to \$1,793.7 million at June 30, 2010 as well as the strengthening of the Canadian dollar against the Euro, as discussed earlier;

FFO, net of the sale of properties developed for resale, was \$0.3 million in Q2 2010 compared to \$7.4 million in Q1 2009. The decrease of \$(7.1) million primarily related to lower NOI of \$12.7 million, offset by the foreign exchange gain.

Prior Quarter Results

Net operating income from continuing operations was \$30.3 million in Q1 2010, \$0.9 million lower than the \$31.2 million recorded in Q4 2009. The average Canadian dollar foreign exchange rate for the Euro decreased by 9.1% in Q1 2010 versus Q4 2009, which negatively impacted the results by approximately \$2.5 million. Property revenue decreased by approximately \$3.0 million due to the loss of a former tenant in Germany, Quelle, which vacated the premises on December 31, 2009. These impacts were offset by a lower bad debt expense recorded in Q1 2010 as compared to Q4 2009 which included a \$5.6 million charge relating to Quelle.

The Company incurred earnings before taxes for the first quarter of 2010 of \$9.6 million (\$0.44 per share), compared to earnings before taxes of \$4.1 million in the same period in 2009 (\$0.21 per share), a variance of \$5.5 million. The increase relates primarily to the following:

- NOI was \$9.7 million lower in Q1 2010 compared to Q1 2009, primarily due to the property in Germany that was vacated by the former tenant, Quelle, on December 31, 2009, as well as an 11.2% decrease in the average Euro exchange rate compared to the Canadian dollar;
- The Company realized a \$0.2 million gross profit (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q1 2010, compared to a \$1.6 million gross profit in Q1 2009, a variance of \$1.4 million. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was substantially completed on December 31, 2009, and therefore revenues and costs recorded in Q1 2009 are not recurring, as well as lower sales activity on condominium units in Q1 2010.
- A fair value gain on investments of \$0.4 million in Q1 2010, compared to a loss of \$3.2 million in Q1 2009, a variance of \$3.6 million, resulting from changes in the market prices on the Company's quoted investments;
- A foreign exchange gain of \$13.2 million was recorded in Q1 2010, compared to a gain of \$7.2 million in Q1 2009, a variance of \$6.0 million. The gain in Q1 2010 mainly resulted from a 8.8% strengthening of the Canadian dollar compared to the Euro, from \$1.50:€1 at December 31, 2009 to \$1.37:€1 at March 31, 2010, which decreased the value of the Company's €100 million of unhedged debt by \$13.0 million.
- Lower interest expense in Q1 2010 by \$2.4 million, mainly due to the strengthening of the Canadian dollar against the Euro, as discussed earlier;
- An increase in other income of \$4.2 million; and
- A decrease in the loss recorded on derivative instruments of \$3.7 million resulting from recovering interest rates.

FFO, net of the sale of properties developed for resale, was \$10.1 million in Q1 2010 compared to \$9.3 million in Q1 2009. The increase of \$0.8 million primarily related to lower NOI of \$9.7 million, offset by the foreign exchange gain.

Fourth Quarter 2009

Net operating income was \$31.2 million in Q4 2009, \$4.1 million lower than the \$35.3 million recorded in Q3 2009. The average foreign exchange rate for the Euro was slightly lower in Q4 2009 compared to Q3 2009, which contributed towards the decrease in NOI. The average Canadian dollar foreign exchange rate for the Euro was 1.7% higher and the US dollar rate was 7% higher in Q4 2009 compared to Q3 2009. The Company incurred a loss before taxes for the fourth quarter of 2009 of \$386.3 million (loss before taxes of \$19.57 per share). This is due primarily to higher fair value adjustments on investment properties in Q4 2009 and an impairment charge on development properties

NOI was \$35.3 million in Q3 2009, \$4.0 million lower than the \$39.3 million recorded in the prior quarter. The variance primarily relates to a decrease in the occupancy rate in the Industrial portfolio due to two properties in the Netherlands being vacated by the tenants. The average foreign exchange rate for the Euro was slightly lower in Q3 2009 compared to Q2 2009, which also contributed towards the decrease in NOI. The average Canadian dollar foreign exchange rate for the Euro was 0.76% lower and the US dollar rate was 3% lower in Q3 2009 compared to Q2 2009.

The Company incurred a loss before taxes for the third quarter of 2009 of \$30.2 million (loss before taxes of \$1.55 per share). The significant loss relates primarily to an \$18.8 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale. This loss resulted primarily from budget adjustments related to unexpected increased costs on the Homburg-Harris Centre as the project neared completion. The Company also recorded a gross loss in Q3 2009 resulting from the sale of condominium units at low market prices.

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RESULTS OF OPERATIONS

Property revenue and net operating income

Information related to geographical operating segments is summarized below. Property revenue includes rental revenue and tenant cost recoveries. Net operating income has been calculated by deducting direct property operating expenses related to property revenue, and is exclusive of general and administrative expenses, depreciation and amortization, and interest on related debt.

<i>Geographical Segments</i> <i>(In millions unless otherwise stated)</i>	<u>Germany</u>	<u>Netherlands</u>	<u>The Baltics</u>	<u>North America</u>	<u>Total</u>
Six months ended June 30, 2010					
Property revenue	\$ 31.8	\$ 16.8	\$ 9.7	\$ 8.5	\$ 66.8
Operating expenses	<u>1.9</u>	<u>1.0</u>	<u>3.1</u>	<u>3.9</u>	<u>9.9</u>
Net operating income	<u>\$ 29.9</u>	<u>\$ 15.8</u>	<u>\$ 6.6</u>	<u>\$ 4.6</u>	<u>\$ 56.9</u>
Occupancy rate at June 30, 2010	80.0 %	71.1 %	86.2 %	95.1 %	
Six months ended June 30, 2009					
Property revenue	\$ 47.3	\$ 23.0	\$ 11.4	\$ 9.7	\$ 91.4
Operating expenses	<u>3.0</u>	<u>2.9</u>	<u>3.2</u>	<u>4.6</u>	<u>13.7</u>
Net operating income	<u>\$ 44.3</u>	<u>\$ 20.1</u>	<u>\$ 8.2</u>	<u>\$ 5.1</u>	<u>\$ 77.7</u>
Occupancy rate at June 30, 2009	100.0 %	84.0 %	89.1 %	93.9 %	
Three months ended June 30, 2010					
Property revenue	\$ 15.0	\$ 7.8	\$ 4.6	\$ 3.8	\$ 31.2
Operating expenses	<u>1.2</u>	<u>1.3</u>	<u>2.1</u>	<u>2.1</u>	<u>4.6</u>
Net operating income	<u>\$ 13.8</u>	<u>\$ 7.8</u>	<u>\$ 3.3</u>	<u>\$ 1.7</u>	<u>\$ 26.6</u>
Three months ended June 30, 2009					
Property revenue	\$ 24.4	\$ 13.2	\$ 5.7	\$ 4.6	\$ 47.9
Operating expenses	<u>2.7</u>	<u>2.0</u>	<u>1.5</u>	<u>2.4</u>	<u>8.6</u>
Net operating income	<u>\$ 21.7</u>	<u>\$ 11.2</u>	<u>\$ 4.2</u>	<u>\$ 2.2</u>	<u>\$ 39.3</u>

Total property revenue was \$66.8 million in Q2 2010, compared to \$91.4 million in Q2 2009, a decrease of 26.9%. The Germany segment was impacted by the loss of a former tenant, Quelle, which vacated an industrial property which accounts for approximately 2.4 million square feet in the industrial portfolio. Additionally, a decrease of 14.4% in the average Euro foreign exchange rate compared to the Canadian dollar negatively impacted the result of the Germany, The Netherlands and the Baltic States segments.

Property revenue from the North America segment decreased to \$8.5 million in Q2 2010 compared to \$9.7 million in Q2 2009 mainly due to the average USD foreign exchange rate compared to the Canadian dollar being lower in 2010 compared to 2009 by 14.2%.

Property operating expenses decreased slightly in all segments in 2010 compared to 2009 from a total of \$13.7 million in Q2 2009 to \$9.9 million in Q2 2010 for a decrease of \$3.8 million. This is a reduction of 26.9% and is primarily the result of the Euro exchange rate as previously discussed.

NOI decreased by 26.8% in 2010 compared to 2009. This is mainly reflective of the decrease in occupancy in Germany (relating to Quelle), which reduced the overall occupancy in that segment from 100.0% at June 30, 2009 to 80.0% at June 30, 2010 representing approximately 2.4 million square feet in the Industrial segment, and the foreign currency changes.

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In addition to the Company's geographical operating segments, the following information summarizes operating results by property classification.

<i>Property Type Segments</i> <i>(In millions unless otherwise stated)</i>	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
Six months ended June 30, 2010					
Property revenue	\$ 9.6	\$ 8.8	\$ 48.4	\$	\$ 66.8
Operating expenses	<u>2.8</u>	<u>2.5</u>	<u>4.6</u>		<u>9.9</u>
Net operating income	<u>\$ 6.8</u>	<u>\$ 6.3</u>	<u>\$ 43.8</u>	<u>\$</u>	<u>\$ 56.9</u>
Occupancy rate at June 30, 2010	96.2 %	61.4 %	92.4 %	%	
Six months ended June 30, 2009					
Property revenue	\$ 11.4	\$ 19.1	\$ 60.9	\$	\$ 91.4
Operating expenses	<u>3.0</u>	<u>1.4</u>	<u>9.3</u>		<u>13.7</u>
Net operating income	<u>\$ 8.4</u>	<u>\$ 17.7</u>	<u>\$ 51.6</u>	<u>\$</u>	<u>\$ 77.7</u>
Occupancy rate at June 30, 2009	97.2 %	87.8 %	96.6 %	%	
Three months ended June 30, 2010					
Property revenue	\$ 4.4	\$ 4.0	\$ 22.8	\$	\$ 31.2
Operating expenses	<u>1.3</u>	<u>1.4</u>	<u>1.9</u>		<u>4.6</u>
Net operating income	<u>\$ 3.1</u>	<u>\$ 2.6</u>	<u>\$ 20.9</u>	<u>\$</u>	<u>\$ 26.6</u>
Three months ended June 30, 2009					
Property revenue	\$ 5.5	\$ 11.1	\$ 31.3	\$	\$ 47.9
Operating expenses	<u>1.4</u>	<u>0.7</u>	<u>6.5</u>		<u>8.6</u>
Net operating income	<u>\$ 4.1</u>	<u>\$ 10.4</u>	<u>\$ 24.8</u>	<u>\$</u>	<u>\$ 39.3</u>

The decrease in the overall occupancy in the industrial portfolio from 87.8% in Q2 2009 to 61.4% in Q2 2010 was due to Quelle, as discussed previously.

The retail portfolio consists of 16 (December 31, 2009 - 82) retail properties, including a joint venture in shopping centers in the US and a shopping center in Germany having total rentable square footage of 1.0 million square feet. The retail rental revenue and net operating income for the second quarter on the properties held on June 30, 2010 have decreased 15.8% and 19.0% respectively over the same period in 2009 due primarily to property sales. Overall occupancy in the retail portfolio was 96.2% at June 30, 2010 (97.2% - June 30, 2009).

The industrial portfolio consists of 30 (December 31, 2009 - 38) industrial buildings located in the US and Europe with a total area of 4.7 million square feet. The Company's industrial buildings generated \$8.8 million total rental revenue in the second quarter of 2010 and \$6.3 million in net operating income compared to \$19.1 million total rental revenue in the second quarter of 2009 and \$17.7 million in net operating income, related to the decrease in overall occupancy in the industrial portfolio to 61.4% at June 30, 2010 (87.8% - June 30, 2009). This reduction is primarily due to the loss of the former tenant, Quelle, as previously discussed.

The office portfolio consists of 77 (December 31, 2009 - 101) small to medium sized office buildings in the United States and Europe, with a total area of 5.1 million square feet. Second-quarter property revenue was \$22.8 million compared to \$31.3 million in the same period of 2009 while net operating income was \$20.9 million versus \$24.8 million in 2009. Overall occupancy in the office portfolio was 92.4% at June 30, 2010 (96.6% June 30, 2009).

The residential portfolio was primarily located in Nova Scotia, New Brunswick and Quebec, Canada, which was included in the disposition to Homburg Canada Real Estate Investment Trust. The results of these operations have been moved to discontinued operations and therefore not included in property revenue and operating expenses making up NOI.

Properties Developed for Resale

Revenue from the sale of properties developed for resale decreased by \$29.2 million from \$39.8 million in Q2 2009 to \$10.6 million in Q2 2010. The variance was primarily because the construction of the Homburg-Harris Centre in Calgary was completed on December 31, 2009, and therefore revenues and costs recorded in Q2 2009 are not recurring, as well as lower sales activity on condominium units in Q2 2010. Net loss from the sale of development properties was \$2.5 million in Q2 2010, compared to a net loss of \$10.3 million in Q2 2009.

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BALANCE SHEET HIGHLIGHTS

Assets

Total assets decreased from \$3.3 billion at December 31, 2009 to \$2.2 billion at June 30, 2010. The table below summarizes Homburg Invest's asset base.

	June 30	December 31
	2010	2009
	<i>(Millions)</i>	<i>(Millions)</i>
Investment properties	\$ 1,527.3	\$ 2,739.4
Investment properties under development	249.0	245.9
Investments at fair market value	8.0	27.9
Investment in an associate, at equity	212.8	
Deferred tax assets	14.1	
Restricted cash	16.8	23.2
Cash	18.4	32.6
Properties under development for resale	64.2	74.0
Receivables and other	48.6	49.6
Assets classified as held for sale	33.3	73.0
	\$ 2,192.5	\$ 3,265.6

Investment Properties and Investment Properties under Development

Investment properties decreased by \$1,212.1 million from \$2,739.4 million at December 31, 2009 to \$1,527.3 million at June 30, 2010. The carrying value of investment properties was reduced by the impact of foreign currency translation adjustments on overseas assets which was significant due to the difference between the Canadian dollar and Euro foreign exchange rate of \$1.28:€1 at June 30, 2010 compared to \$1.50:€1 at December 31, 2009, a decrease of approximately 6.7%. Investment properties under development increased by \$3.1 million from \$245.9 million to \$249.0 million at June 30, 2010. Capital expenditures and capitalized interest totaled \$8.4 million.

Investment in an Associate, at Equity

Investment in an associate represents the 41.26% equity investment in Homburg Canada Real Estate Investment Trust ("HCREIT") obtained during Q2 2010. The balance represents the investment at cost of \$212.5 million, which includes the Company's share of HCREIT's bargain purchase gain of \$69.4 million and HII's share of HCREIT's net income of \$1.6 million.

Assets classified as Held for Sale

Assets held for sale decreased by \$39.7 million from \$73.0 million at December 31, 2009 to \$33.3 million at June 30, 2010 largely in relation to the restatement to discontinued operations of the assets transferred to HCREIT during the quarter for the comparative period of December 31, 2009.

Properties under Development for Resale

Development properties decreased by \$9.8 million due to sales in the period.

Receivables and other

Receivables mainly consist of amounts due from tenants and on the sale of properties developed for resale, deferred rental receipts, prepaid expenses, deferred leasing costs and GST rebates on development projects and VAT on foreign subsidiaries, all of which arise in the normal course of operations.

Long Term Investments

The long term investments totaled \$8.0 million at June 30, 2010 compared to \$27.9 million at December 31, 2009. The difference mainly relates to fair value adjustments with respect to the Company's investments in other publicly listed real estate enterprises.

Capital Structure

The table below summarizes Homburg Invest's capital structure.

	June 30, 2010		December 31, 2009	
	<i>(Millions)</i>		<i>(Millions)</i>	
Long term debt	\$ 1,793.7	86.9 %	\$ 2,641.7	86.0 %
Construction financing	99.8	4.8 %	95.0	3.1 %
Homburg Capital Securities A	2.4	0.1 %	3.9	0.1 %
Long term payables	10.0	0.5 %	11.7	0.4 %
Due to DIM shareholders		%	3.0	0.1 %
Non-construction demand loans	8.9	0.4 %	74.3	2.4 %
Liabilities related to assets classified as held for sale	\$ 24.8	1.2 %	\$ 43.4	1.4 %
	\$ 1,939.6	93.9 %	\$ 2,873.0	93.5 %
Shareholders' equity	125.6	6.2 %	200.1	6.6 %
	\$ 2,065.2	100.0 %	\$ 3,073.1	100.0 %

Long Term Debt

Mortgages payable on revenue producing properties decreased by \$718.0 million during Q2 2010. New borrowings and debt assumptions amounted to \$1.3 million while \$22.7 million was applied to the mortgage debt as required under normal principal payments, dispositions and refinancing. The remaining \$696.6 million relates to the \$541.6 million transferred to HCREIT, while the remainder is the impact of changes in

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foreign exchange rates on the EUR and USD denominated debt.

Mortgage bonds payable decreased by \$38.0 million during Q2 2010, primarily as a result of approximately \$30.7 million (EUR €24.0 million) of HMB2 being repaid and of approximately \$7.3 million due to the impact of changes in foreign exchange rates on this Euro denominated debt. The Company has entered into guarantee arrangements on all series of its mortgage bonds, 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, to a maximum limit equal to the face value of each mortgage bond, and has relinquished any appreciation rights which may arise on the future settlement of its Euro denominated Mortgage Bonds. The Mortgage Bonds are recorded at the prevailing exchange rate at March 31, 2010. Included within the consolidated balance sheet is a liability of \$26.1 million (December 31, 2009 - liability of \$5.0 million) reflecting an increase in the principal amount of the mortgage bonds (resulting from a change in the value of the Canadian dollar versus the Euro) since the bonds were issued. As a result of the guarantee, there is no earnings impact related to changes in currency value of the bonds.

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. The non-asset backed bonds decreased by \$91.2 million in Q2 2010, \$21.7 was the result of Bonds acquired through the acquisition of Swiss Bond Co, the remaining \$69.3 was the reduction of the Euro.

The junior subordinated notes consist of EUR €25.0 million (\$32.0 million) (December 31, 2009 - EUR €25.0 million (\$37.6 million)) and USD \$20.0 million (\$20.9 million) (December 31, 2009 - USD \$20.0 million (\$20.9 million)) and require interest only payments until maturity in 2036 and carry a fixed interest rate until 2016 and variable thereafter. The Company has a redemption option effective in 2011 until maturity. The outstanding balances are translated at period end exchange rates. The notes have a financial covenant which requires the Company to maintain a certain minimum rolling four-quarter interest coverage ratio, and a net worth covenant ratio, as calculated using the Company's consolidated financial statements prepared in accordance with IFRS. The interest coverage ratio and net worth covenant ratio were in default during 2009 and the first two quarters of 2010. A waiver from the lender was obtained until April 30, 2011 and the Company is currently negotiating new covenant terms to replace the waiver.

Construction Financing

To June 30, 2010, the Company had \$99.8 million in construction financing outstanding relating to our development projects outlined earlier.

Non-construction demand loans

Non-construction demand loan balances decreased by \$65.4 million to \$8.9 million at June 30, 2010 compared to \$74.3 million at December 31, 2009. \$45.0 million relates to an operating line repaid in Q2 2010, and approximately \$18.0 million assumed by HCREIT related to assets purchased by HCREIT.

Shareholders' Equity

Homburg Invest's shareholders' equity decreased from \$200.1 million at December 31, 2009 to \$125.6 million at June 30, 2010. \$51.4 million of the increase was Other Comprehensive Income resulting from foreign exchange movement, \$132.7 million was net loss in the period, and the remainder was the issue of Homburg Capital Securities A.

The Company's US operations, headquartered in Colorado Springs, Colorado and the European operations headquartered in Soest, The Netherlands, have a functional currency of the US dollar and Euro respectively for recording substantially all transactions. The financial statements of the Company's overseas operations are translated on consolidation to Canadian dollar equivalent amounts using the current rate method, whereby assets and liabilities are translated at period end exchange rates while revenues and expenses are converted using average translation rates for the reporting period. Gains and losses resulting from the currency translations of the subsidiaries are deferred and included in the accumulated other comprehensive income (loss) within shareholders' equity. At June 30, 2010, the cumulative gain was \$36.4 million; a decrease of \$(9.4) million from the accumulated gain amount of \$45.8 million as at June 30, 2009 and an increase of \$36.4 million from the accumulated gain amount of \$19.2 million at December 31, 2009.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL COMMITMENTS

Liquidity Risk

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 when seeking to renew existing debt and obtain 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 for early retirement of debt. Some of the Company's debt agreements have covenants including maximum loan to value ratios and 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 Company's financial condition and results of operations could be adversely affected. The majority of the Company's real estate assets and related mortgage debts are currently held through limited partnership structures. These structures generally limit the recourse of the lender to the specific assets held in or below the limited partnership, and therefore a breach of covenant does not generally impact the Company outside of the specific limited partnership in which the breach of covenant occurs. The recourse of the lender to the Company's mortgage bonds and unsecured debt is generally unrestricted.

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The Company has been negatively impacted by global economic and capital market conditions which have resulted in tightened lending standards, reduced market liquidity, a decrease in real estate transactions and declining real estate values. The Company is significantly levered with a debt to equity ratio of 15.25:1 at June 30, 2010 (December 31, 2009 - 14.14:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the six months ended June 30, 2010, Homburg Invest had total interest expense coverage from continuing operations of 0.89:1 (December 31, 2009 - 0.77:1) (calculated as property revenue, less property operating expenses and general and administrative expenses ÷ interest expense (excluding capitalized interest)).

In response to the changes in global capital markets, on December 16, 2009, the Company announced that the Board of Directors authorized a major reorganization of the Company's real estate assets. As the initial step in the reorganization, the Company completed the creation of the Homburg Canada Real Estate Investment Trust ("HCREIT") to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt through an IPO that closed on May 25, 2010. Cash proceeds from the IPO of approximately \$114.5 million was utilized to reduce debt and satisfy other obligations and as a result is on-side with all debt covenants at June 30, 2010 with the exception of the Quelle-related debt. The following table presents the Company's contractual obligations at June 30, 2010:

<i>(Millions)</i> Contractual Obligations	Payments Due by Period					
	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Head and ground leases (i)	3.3	15.3	15.3	15.9	15.9	193.2
Mortgages: Normal principal installments (i)	21.3	30.5	22.4	20.1	19.2	
Interest (i)	62.0	56.7	47.7	41.7	34.1	
Principal maturities	27.6	130.4	109.0	99.8	31.1	584.0
Bonds and junior subordinated notes:						
Interest (i)	46.5	43.1	34.2	27.8	13.7	
Principal maturities	53.0	157.3	64.0	204.8	106.3	
Non construction demand loans (ii)	8.9					
Construction financing (iii)	99.8					
Construction purchase obligations (iii)	1.1					
Other current and long term payables			10.7			
Working capital deficit (iv)	10.2					
	333.7	433.3	303.3	410.1	220.3	777.2
Mortgage principals: covenant breach (vi)	131.3					
	465.0	433.3	303.3	410.1	220.3	777.2

The Company's derivative instrument liability of \$26.7 million has been excluded from the above table as 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.

- (i) The Company requires liquidity to meet the following obligations which ordinarily fall due in the next twelve months: mortgage principal installments of \$21.3 million; interest on mortgages and mortgage bonds of \$62.0 million; interest on corporate non asset backed bonds and junior subordinated notes of \$46.5 million; capital spending requirements on the income property portfolio, expected to approximate \$2.0 million; and operating lease commitments of \$3.3 million. Sources of finance towards these obligations include: cash on hand of \$18.4 million; net cash flow from operating activities before interest expense unrelated to development activities; the unutilized non-construction demand loans of \$15.0 million with a company controlled by the Chairman and Chief Executive Officer; cash generated from continued sales of completed condominium development projects; the potential sale of certain income producing properties, subject to reasonable prices being attained; and the potential upward refinancing on certain mortgages and distributions received from the HCREIT.
- (ii) The Company's non construction demand loans of \$8.9 million are secured by first or second charges over various investment properties not to exceed 65% of fair value.
- (iii) The Company has \$313.2 million invested in investment properties under development and properties under development for resale that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling \$99.8 million at June 30, 2010. The Company expects to finance construction properties currently under development, including interest on principal borrowings, through existing and additional construction loans. Secured first mortgage 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. Purchase obligations relate to construction projects underway to which the Company has commitments of \$1.1 million. These commitments will be funded from existing cash resources and further construction financing. The Company's reduced liquidity raises uncertainty with respect to the future development of certain land holdings and development projects. As a result, where the current fair value is below the carrying value, an impairment charge has been recorded. There is a risk that further delays in development projects could result in additional costs that may not ultimately be recoverable, and the potential for further impairment charges and/or fair value adjustments.
- (iv) The working capital deficit of \$10.2 million consists of trade receivables (\$29.6 million), related party receivables (\$17.0 million) and notes receivable (\$0.5 million), less trade payables (\$41.0 million), income taxes payable (\$12.6 million), related party payable (\$3.5 million) and notes payables (\$0.1 million), and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.

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- (v) The Company's junior subordinated notes, with a principal balance of \$52.9, were in default of the interest coverage ratio and the net worth covenant ratio during the period ended June 30, 2010, however a waiver from the lender was obtained until April 30, 2011. Accordingly, these principal maturities have been classified as falling due within 2011. In absence of the covenant breach, the principal maturity is due in 2036. The Company is currently negotiating the covenants and expects to have revised satisfactory covenants for September 30, 2010.
- (vi) A loan of \$131.3 which relates to a specific property in Germany that was vacated by the tenant, Quelle GmbH, on December 31, 2009 is in default. According to the loan agreement, the lender has recourse only to the assets of the limited partnership and entities under it which secured the specific loan, and not to the Company as a whole. The lender has not taken action to foreclose on its security at June 30, 2010, and therefore the borrowing entities continue to be consolidated by the Company and the mortgage continues to be recorded at amortized cost. At June 30, 2010, the specific property was recorded at its fair value of \$16.0, after an impairment charge of \$157.4 recorded in December 2009. As a result of the default, the lender may foreclose on its security and the Company may lose control of the assets to the lender. Should this occur, a gain would be realized to the extent of the difference between the maximum amount of the debt of \$131.3 and the limited amount of recourse the lender is able to recover.

Should the above 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, and as a result the financial condition and results of operations could be adversely affected.

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. The Company's debt consists of \$1.5 billion in fixed rate debt and \$375.6 million in floating rate debt (before deferred financing charges and the currency guarantee payable) including \$108.7 million in demand and short term loans which are repayable in less than one year. 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 €149.0 million (\$190.8 million) (December 31, 2009 - EUR €159.9 million (\$240.5 million)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltics during the three months ended June 30, 2010, the impact on the statement of income is a loss of \$6.7 million in Q1 2010 (Q2 2009 - loss of \$4.8 million). The Company discloses the weighted average interest rate of maturing long term debt in the consolidated financial statements. 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 \$2.7 million in the Company's earnings as a result of the impact on floating rate borrowings.

Credit risk

The Company's principal assets are commercial and residential properties. Credit risk on tenant receivables of \$29.6 million (December 31, 2009 - \$35.3 million) 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 35.5% 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 €75.0 million (\$95.9 million) 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. The Company performs monthly reviews of its receivables and establishes an appropriate provision for doubtful accounts. 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.

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 June 30, 2010, EUR €234.3 million (\$299.9 million) (December 31, 2009 - EUR €234.3 million (\$352.5 million)) 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 June 30, 2010 and December 31, 2009 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. A 10% variation in exchange rates is considered to represent a reasonably possible change to existing rates. With all other variables held constant, the Company has determined that a 10% change:

- in the Euro exchange rate compared to the Canadian dollar would result in an decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$189 thousand and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$7.7 million after income taxes; and
- in the US dollar exchange rate compared to the Canadian dollar would result in a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of \$149 thousand and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1.5 million after income taxes.

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

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gain or loss on the hedging amounts of Euro-denominated debt is reflected in the Other Comprehensive Income during the period.

Concentration risk

Certain of the Company's larger investment properties are leased to single tenants, and the recovery of the carried value of these investments is dependent upon the continuation of rental income on these properties from existing or new tenants. The Company's largest single tenant represented approximately 35.5% (December 31, 2009 - 34%) 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 property leased to this tenant had a fair market value of \$576.0 million at June 30, 2010. The Company also follows a policy of maintaining its properties to a quality standard that would support timely re-leasing to new tenants.

Environmental risk

As an owner and manager of real estate properties, the Company 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. 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. The Company 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.

FINANCIAL INSTRUMENTS

The Company does not acquire, hold or issue derivative financial instruments for trading purposes, and the Company has no off-balance sheet arrangements. The following table presents the classification, subsequent measurement, carrying values and fair values (where available) of the Company's financial assets and liabilities.

Classification	Subsequent Measurement	Carrying Value 2010 (Millions)	Fair Value 2010 (Millions)	Carrying Value 2009 (Millions)	Fair Value 2009 (Millions)
Available for Sale					
Long term investments: DEGI L.P. (a)	Fair value (L2)			\$ 13.1	\$ 13.1
Held for Trading					
Long term investments: others (b)	Fair value (L1)	\$ 0.6	\$ 0.6	\$ 6.3	\$ 6.3
Long term investments: HEEF B.V. (b)	Fair value (L3)	7.5	7.5	8.6	8.6
Cash and cash equivalents (c)	Fair value (L1)	18.4	18.4	32.5	32.5
Currency guarantee receivable (c)	Fair value (L2)	(26.2)	(26.2)	(5.0)	(5.0)
Derivative instrument liability (c)	Fair value (L2)	(26.7)	(26.7)	(24.0)	(24.0)
		<u>\$ (26.4)</u>	<u>\$ (26.4)</u>	<u>\$ 18.4</u>	<u>\$ 18.4</u>
Loans and Receivables					
Restricted cash (d)	Amortized cost	\$ 16.8	\$ 16.8	\$ 23.2	\$ 23.2
Receivables and other (d)	Amortized cost	48.6	48.6	49.6	49.6
		<u>\$ 65.4</u>	<u>\$ 65.4</u>	<u>\$ 72.8</u>	<u>\$ 72.8</u>
Other Financial Liabilities					
Accounts payable and other (d)	Amortized cost	\$ 73.3	\$ 73.3	\$ 208.7	\$ 208.7
Mortgages (e)	Amortized cost	1,226.7	1,272.4	1,944.7	2,003.7
Mortgage bonds (e)	Amortized cost	131.1	170.0	190.2	207.9
Corporate non-asset backed bonds (e)	Amortized cost	375.1	400.4	466.3	462.1
Junior subordinated notes (e)	Amortized cost	53.0	79.5	58.7	88.1
Deferred financing charges (e)	Amortized cost	(18.4)		(23.1)	
Construction financing (e)	Amortized cost	99.8	99.8	95.0	95.0
		<u>\$ 1,940.6</u>	<u>\$ 2,095.4</u>	<u>\$ 2,940.5</u>	<u>\$ 3,065.5</u>

The Company uses the following hierarchy for determining the fair value of financial instruments: Level 1 ("L1") - quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2 ("L2") - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; and Level 3 ("L3") - techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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- (a) The investment in DEGI L.P. represents 10% of the limited partnership units. This investment was sold as part of the HCREIT transaction during the period.
- (b) Long term investments, are classified as held for trading and carried at their fair values. The fair value of the Company's investment in HEEF B.V. is based on the proportionate share of the reported net asset value of the B.V.. HEEF B.V. prepares its financial statements in accordance with IFRS 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. Management has determined that a reasonably possible change in the assumptions used to determine the fair value of the Company's investment in HEEF B.V. would not result in a significant impact to the consolidated financial statements. The fair values of other long term investments are based on quoted market prices. A gain of \$0.7 million resulting from the change in fair values of investments was recorded in the consolidated income statement during the period (2009 - loss of \$0.9 million).
- (c) Cash and cash equivalents, the currency guarantee receivable and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$6.7 million during the year in the consolidated income statement (2009 - loss of \$4.8 million).
- (d) The Company's short term financial instruments, comprising restricted cash, trade receivables, related party receivables, notes receivable, trade payables, related party payables, notes payable, security deposits, Homburg Capital Securities A liability, and construction financing are carried at amortized cost which, due to their short term nature, approximates their fair value.
- (e) Long term financial instruments (other than long term investments) include mortgages, mortgage bonds, corporate non-asset backed bonds, junior subordinated notes and long term payables. The fair values of these financial instruments are based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk, 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.

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. A summary of the various transactions between related parties is as follows:

	Three Months Ended June 30 2010 (Thousands)	Three Months Ended June 30 2009 (Thousands)	Six Months Ended June 30 2010 (Thousands)	Six Months Ended June 30 2009 (Thousands)
Rental revenue earned	\$ (209)	\$ (171)	\$ (429)	\$ (321)
Interest Income	\$ (336)	\$ (362)	\$ (336)	\$ (362)
Management agreement termination fee (m)	\$	\$	\$ 21,600	\$
Asset and construction management fees (o)	\$ 1,966	\$ 9,035	\$ 5,683	\$ 14,551
Property management fees incurred (o)	\$ 1,972	\$ 887	\$ 3,483	\$ 2,003
Insurance costs incurred	\$ 182	\$ 328	\$ 514	\$ 687
Service fees incurred	\$ 1,659	\$ (597)	\$ 3,500	\$ 757
Property acquisition / disposal fees incurred (o)	\$ 231	\$ (1,300)	\$ 1,160	\$ 5
Mortgage bond guarantee fees incurred (i)	\$ 1,134	\$ 716	\$ 2,072	\$ 1,388
Tenant Improvements	\$	\$	\$	\$ 125
Bond and other debt issue costs incurred)	\$ 32	\$ 1,482	\$ 209	\$ 1,940
Interest costs incurred (f) (g) (j)	\$	\$ 868	\$ 147	\$ 942

- (b) Included in trade receivables is \$17.0 million (Accounts payable - December 31, 2009 - \$198 thousand) receivable to companies commonly controlled by the Chairman and Chief Executive Officer, which are non-interest bearing and have no set terms of repayment.
- (c) Included in restricted cash and accounts payable is a deposit on a condominium unit of \$355 thousand from the Chairman and Chief Executive Officer. The unit will be purchased at market prices.
- (d) 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.
- (e) Professional services of approximately \$253 thousand (June 30, 2009 - \$100 thousand) were purchased from a corporation of which one of the Company's directors is affiliated.
- (f) Also included in accounts payable is a demand note payable plus accrued interest in the amount of EUR €2,473 thousand (\$3,165 thousand) (December 31, 2009 - EUR €2,376 thousand (\$3,573 thousand)) 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 \$336 thousand (\$352 thousand) (December 31, 2009 - USD \$1,291 thousand (\$1,355 thousand)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.

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- h) Included in accounts receivable is a demand note receivable in the amount of EUR €NIL (December 31, 2009 - EUR €6,795 thousand (\$10,220 thousand)) 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 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds.
- j) Included in non-construction demand loans is a promissory note payable plus interest in the amount of EUR €9,979 thousand (\$8,933 thousand)(December 31, 2009 - EUR €7,519 thousand (\$11,310 thousand) bearing interest at 6.0% per annum. This amount relates to the Company's investment in Homburg Eastern European Fund B.V. and is payable to that entity, and has no specific repayment terms.
- k) During the year the Company acquired a company commonly controlled by the Chairman and CEO which holds EUR €16.9 million (\$21.7 million) million Homburg Bond 11.
- l) The Company has entered into head leases with HCREIT. The annual minimum rent payable, excluding amounts subject to third party tenants, total \$1.1 million. The head leases commenced on May 25, 210 and have a five year term subject to certain rights of termination upon third party leasing of such space. The Company has \$112 thousand included in property operating expenses for the period ended June 30, 2010.
- m) The Company has entered into a ground lease with HCREIT for a term of 25 years, with an option to renew for up to 3 additional periods of 25 years each. The annual minimum rent payable for the ground lease is \$186 thousand. The Company has \$19 thousand included in property operating expenses for the period ended June 30, 2010.
The Company has pledged and hypothecated in favour of HCREIT, Units having an aggregate value of approximately \$6 million as security for its obligations under the Head Leases (the "Head Lease Pledge"), and Units having an aggregate value of approximately \$4 million as security for certain of its obligations in connection with remediation costs, if any, on certain income producing properties (the "Remediation Cost Pledge"). The number of Units pledged under the Head Lease Pledge reduces annually by 1/5 of the number of Units pledged. The number of Units pledged under the Remediation Cost Pledge will be reduced from time to time upon payment by the Company to HCREIT of any portion of the remediation costs, if any, it being understood that for each \$10 of the total remediation cost paid to HCREIT, the number of Units pledged under the Remediation Cost Pledge will be reduced by one Unit. Upon payment of the full Remediation Cost, the Company will be fully discharged of its obligations under the Remediation Cost Pledge and any remaining Units will be released from the Remediation Cost Pledge.
- n) As part of the HCREIT launch by the Company on December 16, 2009, the Company concluded that management functions relating to its Canadian operations performed under the existing agreements should be internalized within HCREIT. The Company considered various restructuring alternatives to modify the agreements accordingly, and concluded that the preferred alternative was the immediate termination of the agreement. Consequently, the Company, together with its various property owning subsidiary partnerships, paid the termination amount of \$21.6 million provided for under the agreement, effective February 25, 2010.
- o) **Property and Asset Management Service Fees**
The Company has entered into a Property and Asset Management Agreement, which expires on June 30, 2016, with a company commonly controlled by the Chairman and Chief Executive Officer to provide the following services payable on a monthly basis:

Property Management Service Fees

- (i) For investment properties where Single Tenant Triple 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 are not in place, fees will be a percentage 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 are not in place, fees will be a percentage 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 be equal to the lesser of (i) market rates and (ii) 3.5% of annual rents;
- (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.

Asset Management Service Fees

- (vi) 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;
- (vii) For investment properties situated in Europe, annual fees of 0.20% of the total asset base, calculated on a quarterly basis;
- (viii) 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

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- acquired by HII or private placements to related parties; and
- (ix) 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.

SUBSEQUENT EVENTS

Management has performed an evaluation of the Company's activities through the date these financial statements were issued and concluded that there are no additional significant events requiring recognition or disclosure.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the date of the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- i) Operating lease commitments - Company as lessor. The Company has entered into commercial and residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.
- ii) Consolidation and proportionate consolidation of Limited Partnerships (L.P.'s). A large portion of the Company's investment properties are held in L.P.'s. In certain of these L.P.'s, the Company is the sole limited partner and it has been determined that the Company is able to exercise full control. Accordingly, these entities are consolidated. In other partnerships, the Company's share is less than 100% (Note 27). Homburg LP Management Inc., a company directly and indirectly controlled by the Chairman and CEO, acts as the general partner in all partially owned L.P.'s, except the Cedar joint venture in which the general partner is related to the minority limited partner. The Company has concluded that it is able to exercise joint control over all entities which are less than 100% owned, primarily established by terms which require the unanimous consent of all partners for major partnership decisions. Accordingly, these entities are proportionately consolidated.

Estimates and assumptions

In the process of applying the Company's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognised in the consolidated financial statements:

- i) Valuation of investment properties. Investment properties comprises real estate (land or buildings or both) held by the Company in order to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services or for administrative purposes or in the ordinary course of business. Investment properties are presented at fair value at the reporting date. Any change in fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. Management's internal assessments of fair value are based upon internal financial information and are corroborated by capitalization rates obtained from independent industry experts. Management's internal valuations and independent appraisal values obtained are both subject to significant judgment, estimates and assumptions about market conditions in effect at the reporting date.
- ii) Valuation of investment properties under development. Prospectively from January 1, 2009, investment properties being constructed or developed are carried at fair value, to the extent that fair value is reliably determinable, with changes in fair value recognized in the Consolidated income statement. 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. Fair value is determined by using a combination of management's internal valuations and valuations from independent real estate valuation experts, each in accordance with recognised valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively. The fair value of land to be developed for future use as an investment property is based on recent comparable market transactions, plus costs incurred that enhance the land value. Prior to January 1, 2009, the Company applied the revaluation model for its development properties (other than those being developed for resale). Under the revaluation model, the development properties were valued at fair value if and when such value could be reliably determined. If fair value could not be reliably determined, the cost approach was followed. Under the cost approach the value of a development property was estimated by summing the land value and the value of capital expenditures, including capitalized interest. The Company also assessed these properties for impairment.
- iii) Valuation of properties under development for resale. Properties under development for resale are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and costs to complete development. Estimated selling prices are supported by recent comparable market transactions.

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- iv) Income taxes. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. In addition, the Company operates in a number of jurisdictions and its legal structure is complex. The computation of the Company's income tax provision and deferred tax balances involves many factors including interpretation of relevant tax legislation in each of the jurisdictions in which the Company operates. When applicable, the Company adjusts the previously recorded tax provision and associated tax assets and liabilities to reflect changes in estimates and for any tax assessments levied.
- v) Fair value of financial instruments. Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.
- vi) Provisions. The Company has entered into certain operating lease commitments with respect to head leases which are potentially onerous, depending on the Company's ability to recover its obligations through sub-leases with sub-tenants. The Company estimates the amounts it may be able to recover using current market data concerning leasing rates and tenant incentives and estimates of time expected to sub-lease any vacant space. Changes in assumptions about these factors could affect the reported amount of provisions.

These estimates and assumptions result from the application of judgment and therefore are subject to uncertainty. The Company monitors these estimates and assumptions on a continual basis.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

These revisions / amendments are effective for fiscal years beginning on or after July 1, 2009 and must be adopted concurrently. The revision to IFRS 3 clarifies the distinction between a business combination and an asset acquisition and requires that transaction costs incurred on business combinations be expensed when incurred, which will impact the amount of goodwill recognized and the reported results in the period an acquisition occurs and prospectively. The amended IAS 27 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to senior management to ensure appropriate and timely decisions are made regarding public disclosure. The Company's management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), has designed internal controls over financial reporting (as defined in the Canadian Securities Administrator's National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

MANAGEMENT'S REPORT ON DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, the operating effectiveness of the disclosure controls and procedures and internal control over financial reporting were assessed using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control Over Financial Reporting - Guidance for Smaller Public Companies. Based on these evaluations, Management, including the CEO and CFO conclude that as at June 30, 2010:

- (i) Disclosure controls and procedures were effective to provide reasonable assurance that material information was made known to Management and information required to be disclosed by the Company in its annual filings, interim filings and other reports filed by the Corporation under securities legislations was recorded, processed, summarized and reported within the periods specified in securities legislation.
- (ii) Internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

MATERIAL CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There were no material changes in internal controls over financial reporting in 2010. With the previously announced reorganization of Homburg Invest Inc. into a public holding company, all internal control systems will be reassessed for operating effectiveness.

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OTHER REQUIREMENTS

- (a) Additional information relating to Homburg Invest, including our Annual Information Form (AIF) is on our website at www.homburginvest.com and at SEDAR at www.sedar.com.
- (b) The Company continues to prepare its financial statements in accordance with Canadian generally accepted accounting principles as well as in accordance with International Financial Reporting Standards and makes both sets of financial statements available at SEDAR at www.sedar.com.
- (c) National Instrument 51-102, Section 5.4 Disclosure of Outstanding Share Data. As at June 30, 2010, Homburg Invest was authorized to issue an unlimited number of Class A Subordinate Voting Shares, an unlimited number of Class B Multiple Voting Shares and an unlimited number of Class A and B preferred shares, issuable in series, with rights and privileges to be determined upon issue. On that date, 17,094,488 Class A Subordinate Voting Shares and 3,148,539 Class B Multiple Voting Shares were issued for a recorded value of \$703.3 million.

2010 OUTLOOK AND PROPOSED TRANSACTIONS

Reorganization of Real Estate Assets

On December 16, 2009, the Company announced that the Board of Directors had authorized a major reorganization of the Company's real estate assets in order to unlock value for shareholders. To accomplish its goal of unlocking value, HII will divide its assets among entities owned or initially controlled by the Company. The entities will be geographically focused real estate companies, each structured as either a real estate corporation or a real estate investment trust ("REIT"), and each eventually listed on a stock exchange, market conditions permitting, located in proximity to the assets of the spun-off company. HII will henceforth be structured as a public holding company with, initially, significant equity interests in each of the new entities.

Homburg Canada REIT

As the initial step in the reorganization, HII created Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold all of the Company's Canadian income producing real estate properties. On May 25, 2010, the Homburg Canada REIT IPO closed generating approximately \$105 million in cash and approximately \$153 million in units of the REIT to the company. On June 29, 2010, an over-allotment option closed generating additional cash of approximately \$9.2 million. Homburg Invest Inc retains an approximate 41.3% interest in the REIT. With approximately \$1 billion in initial assets, Homburg Canada REIT is among the larger publicly traded REIT's in Canada, with a national and diversified asset base. Homburg Canada REIT has a new and separate Board of Trustees, its own fully internalized management (both asset management and property management), and its head office in Montreal, Quebec. Homburg Canada REIT has a debt-to-equity ratio consistent with that of its Canadian publicly traded peers, but will target a debt-to-equity ratio of 50:50 over time.

With the completion of the first step as announced December 16, 2009, Homburg Invest Inc. will continue to focus on debt reduction, improving net operating income of its assets, and will evaluate which of the other previously announced entities it will move forward, market conditions permitting.

Homburg Development Company

In order to develop its land holdings, particularly in Calgary, Alberta, HII has created Homburg Development Company ("HDC") to hold all development properties and lands held for development in Alberta and other Canadian markets. For the immediate future, HDC will remain a wholly-owned subsidiary of HII. However, HII may consider additional measures to surface value in HDC, including the possibility of merging the company with an appropriate partner, partnering on certain of its development holdings, or selling outright certain positions.

Western Europe

Two newly incorporated entities will be created to hold all German and Dutch assets of the Company respectfully, as well as any new assets that may be acquired in Western Europe. At the appropriate time, the new subsidiaries will be taken public, either separately or together, and listed on the NYSE Euronext Amsterdam and/or another European exchange.

Eastern Europe

It is contemplated that all Eastern European assets of HII will eventually be transferred to a separate company whose shares will be listed on an appropriate exchange in Europe.

United States

All U.S. properties and U.S. joint venture interests of the Company will remain in a wholly owned U.S. subsidiary of HII.

Homburg Invest - Structure, Cash Flow and Dividends

HII will remain a publicly traded holding company with equity interests of varying levels in each of the five new entities. Although HII will hold equity interests in each of the new publicly traded entities at the time of listing, the Company intends to reduce its equity interests to below 50% over time. As the ultimate holding company, HII will collect its share of dividends and/or other cash distributions from its investments in the publicly traded subsidiaries of the Company. This cash flow from the operating divisions will be used to pay interest on outstanding HII bonds, to redeem bonds or finance the redemption of bonds as they come due and at the appropriate time, to restore dividends on the Company's shares. In the event that HII sells shares in any of its divisions, the proceeds may also be used to redeem outstanding HII bonds.

The new structure is intended to ensure that the market is more readily able to value each of HII's portfolios, to increase market liquidity and financial flexibility. Unlocking value via a spin-off of assets, regular dividend payments and/or distributions from the subsidiaries to HII and by the pay-down of debt will all contribute to enhancing value at HII. This program will enable us to build value for shareholders in a transparent manner, and to consider a dividend program for our shareholders at HII at the earliest opportunity.

The new structure will enable investors to choose between investing in a wide range of global assets through an investment in HII shares, or in

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specific geographically focused real estate portfolios, such as the Homburg Canada REIT.

By focusing on attracting greater local investment to each geographical asset class, this new structure enables HII to ensure that our assets in any one geographical area are fully valued by investors who understand the market. Through our retained equity interests in each of the five entities, HII shareholders will benefit from the full valuation of our local assets, while enabling us to continue investing along the global skyline.

The Company's objective for 2010 is to reduce the level of debt the Company is carrying, and improve the net operating income of its remaining portfolio. With the tightening of the capital markets, the Company considers it prudent to raise cash from various sources and will be exploring various alternatives such as partnering of deals, selling a portion of specific projects, delaying start of development projects and the issue of new equity bonds.

Class A and Class B shares

The Company prides itself on its ability to be creative and react to market conditions, and is motivated to raise cash without issuing common equity to be in a position to take advantage of opportunities. The Company considers that with its current share price significantly below the net asset value per share, no new shares will be issued that would have a dilutive effect on existing shareholders. New shares will only be issued at a price that offers a significant premium over net asset value per share. The Company will pay annual dividends to its shareholders, subject to market conditions, and will continue to be listed on both the Toronto Stock Exchange and on the NYSE Euronext Amsterdam.

"Signed"

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

"Signed"

James F. Miles, CA
Vice-President Finance and CFO