

Homburg Invest Inc.
Consolidated Interim Financial Statements
Canadian GAAP
(Unaudited - Prepared by Management)

March 31, 2010

The consolidated interim financial statements for the three months ended March 31, 2010 and March 31, 2009, have not been reviewed by the Company's external auditors.

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Homburg Invest Inc.
Consolidated Interim Balance Sheet

(Unaudited - Prepared by Management)
(CAD \$ thousands except per share amounts)

March 31 December 31
2010 2009

Assets

Investment properties	\$ 2,568,255	\$ 2,714,594
Development properties	348,885	344,856
Long term investments (Note 4)	28,014	24,204
Intangible assets	58,551	66,347
Restricted cash	17,783	23,159
Cash	25,681	32,569
Receivables and other (Note 3)	121,172	101,619
Assets held for resale (Note 8)	24,805	59,374
	<u>\$ 3,193,146</u>	<u>\$ 3,366,722</u>

Liabilities

Long term debt (Note 6)	\$ 2,493,480	\$ 2,641,724
Accounts payable and other liabilities (Note 5)	183,836	222,493
Liabilities held for resale (Note 8)	31,280	41,028
Construction financing	94,262	94,999
Future income taxes (Note 7)	14,020	28,191
Intangible liabilities	12,323	12,656
Derivative financial instrument (Note 12)	26,634	24,045
	<u>2,855,835</u>	<u>3,065,136</u>
Shareholders' equity (Note 9)	<u>337,311</u>	<u>301,586</u>
	<u>\$ 3,193,146</u>	<u>\$ 3,366,722</u>

Commitments (Note 14)
Contingent liabilities (Note 15)
Subsequent events (Note 17)

Approved by the Board, May 14, 2010

"Signed"

Richard Homburg, Phzn., D. Comm.
Director

"Signed"

Edward P. Ovsenny
Director

Homburg Invest Inc.
Consolidated Interim Statement of Earnings (Loss)
Three Months Ended March 31

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

	2010	2009
Property revenue	\$ 70,376	\$ 77,355
Sale of properties developed for resale	5,458	23,511
Dividend income	435	7
Gain on fair value increase in investments	355	
Other income	4,544	349
Foreign exchange gain	13,188	7,191
Gain on sale of investments	<u>4,503</u>	<u>1,602</u>
	<u>98,859</u>	<u>110,015</u>
Property operating expenses	23,637	22,441
Cost of sale of properties developed for resale	5,239	22,445
Interest on long term debt	35,394	37,802
Interest and financing costs	2,277	1,999
Depreciation and amortization	12,340	19,274
General and administrative	5,936	5,675
Stock based compensation	25	48
Loss on derivative instruments	4,956	8,707
Loss on fair value change in investments	<u>3,223</u>	<u>3,223</u>
	<u>89,804</u>	<u>121,614</u>
Earnings (loss) before income taxes from continued operations	<u>9,055</u>	<u>(11,599)</u>
Income tax expense (recovery) (Note 7)	<u>2,156</u>	<u>(2,737)</u>
Net earnings (loss) from continuing operations	6,899	(8,862)
Net earnings from discontinued operations (Note 8)	<u>6,560</u>	<u>500</u>
Net earnings (loss)	<u>\$ 13,459</u>	<u>\$ (8,362)</u>

Earnings (Loss) per share (Note 10)

Per Class A Subordinate Voting Share and Class B Multiple Voting Share:

Basic and Diluted		
Net earnings (loss) from continuing operations	<u>\$ 0.31</u>	<u>\$ (0.45)</u>
Net earnings from discontinued operations	<u>\$ 0.32</u>	<u>\$ 0.03</u>
Net earnings (loss) per share	<u>\$ 0.63</u>	<u>\$ (0.42)</u>

Homburg Invest Inc.
Consolidated Interim Statement of Comprehensive Earnings (Loss)
Three Months Ended March 31

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

	2010	2009
Net earnings (loss)	\$ <u>13,459</u>	\$ <u>(8,362)</u>
Other comprehensive earnings:		
Unrealized foreign currency translation loss	(27,821)	(20,155)
Future income tax recovery	<u>14,840</u>	<u>15,455</u>
	<u>(12,981)</u>	<u>(4,700)</u>
Foreign currency gain on financial instruments designated as hedges of self sustaining foreign operations	<u>31,098</u>	<u>17,250</u>
Other comprehensive earnings	<u>18,117</u>	<u>12,550</u>
Comprehensive earnings	\$ <u>31,576</u>	\$ <u>4,188</u>

Consolidated Interim Statement of Accumulated Other Comprehensive Earnings (Loss)
Three Months Ended March 31

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

	2010	2009
Accumulated other comprehensive loss, beginning of period	\$ (13,265)	\$ (24,038)
Other comprehensive earnings	<u>18,117</u>	<u>12,550</u>
Accumulated other comprehensive earnings (loss), end of period	\$ <u>4,852</u>	\$ <u>(11,488)</u>

Consolidated Interim Statement of Deficit
Three Months Ended March 31

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

	2010	2009
Deficit, beginning of period	\$ (433,228)	\$ (184,050)
Net earnings (loss)	13,459	(8,362)
Dividend related to DIM Vastgoed N.V. dividend guarantee		(35)
Homburg Capital Securities A, accretion in equity component (Note 9c)	<u>(745)</u>	
Deficit, end of period	\$ <u>(420,514)</u>	\$ <u>(192,447)</u>

Homburg Invest Inc.
Consolidated Interim Statement of Cash Flows
Three Months Ended March 31

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

2010

2009

Cash obtained from (used in)

Operating activities

Net earnings (loss) from continuing operations	\$ 6,899	\$ (8,862)
Items not affecting cash:		
Gain on sale of investments	(4,503)	(1,602)
Loss on derivative instruments	4,956	8,707
Depreciation and amortization	12,340	19,274
Amortization of financing fees	1,417	985
Amortization of above and below-market leases	(6)	2,877
Deferred rental income	(2,040)	(2,664)
Future income taxes	1,671	(2,507)
Stock based compensation	25	48
Non-cash change in investments	(355)	3,223
Foreign exchange gain	(13,188)	(7,191)
	<u>7,216</u>	<u>12,288</u>
Change in non-cash working capital and other (Note 11)	<u>(63,892)</u>	<u>5,633</u>
Net cash from (used in) continuing operations	<u>(56,676)</u>	<u>17,921</u>
Net cash used in discontinued operations (Note 8)	<u>1,148</u>	<u>(1,582)</u>
Net cash from operating activities	<u>(55,528)</u>	<u>16,339</u>

Investing activities

Investment in investment properties and intangibles	(2,106)	(6,255)
Proceeds on sale of investment properties		7,935
Decrease in restricted cash	5,376	3,770
Proceeds on sale of investments		(2,760)
Investment in development properties	(6,660)	(11,658)
Discontinued operations (Note 8)	<u>22,781</u>	<u>423</u>
Net cash used in investing activities	<u>19,391</u>	<u>(8,545)</u>

Financing activities

Decrease in demand loans	(2,007)	(9,309)
Increase (decrease) in mortgages payable	45,631	(2,380)
Proceeds (repayment) of bonds	(8,842)	11,043
Increase in deferred financing charges	(1,417)	(268)
Decrease (increase) in related party receivable	2,824	(11,249)
Repurchase of common shares and issue costs		(127)
Increase (decrease) in construction financing	(737)	7,207
Decrease in related party payable		(95)
Proceeds from Homburg Capital Securities A (Note 9)	4,105	6,877
Discontinued operations (Note 8)	<u>(10,308)</u>	<u>(6,895)</u>
Net cash from (used in) financing activities	<u>29,249</u>	<u>(5,196)</u>

Increase (decrease) in cash

	(6,888)	2,598
Cash, beginning of period	<u>32,569</u>	<u>16,359</u>
Cash, end of period	<u>\$ 25,681</u>	<u>\$ 18,957</u>

Supplemental cash flow information (Note 11)

Homburg Invest Inc.
Notes to Canadian GAAP Consolidated Interim Financial Statements

March 31, 2010 and 2009

(Unaudited - Prepared by Management)(CAD \$ thousands except per share amounts)

1. Basis of financial statement presentation

These unaudited consolidated interim financial statements ("financial statements") have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") on a basis consistent with those followed in the most recent audited consolidated financial statements, except as noted below. These financial statements include the financial statements of Homburg Invest Inc. and its subsidiaries, wholly owned partnerships and partially owned partnerships (collectively the "Company"). These financial statements do not contain all disclosures required by GAAP for annual financial statements, and accordingly, the financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2009.

2. Change in accounting policies

In October 2008, the Canadian Institute of Chartered Accountants ("CICA") concurrently issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests". Section 1582, which will replace Section 1581 "Business Combinations", establishes standards for the measurement of a business combination, and for the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which will replace Section 1600 "Consolidated Financial Statements", continues the existing guidance on aspects related to the preparation of consolidated financial statements subsequent to acquisition, other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011 and early adoption is permitted at the start of a fiscal year. The Company has determined that it will not adopt these new standards prior to adopting IFRS.

There are no other Canadian GAAP accounting pronouncements effective on or before January 1, 2011 that are expected to have a significant impact on the Company.

3. Receivables and other

	March 31	December 31
	<u>2010</u>	<u>2009</u>
Trade receivables	\$ 33,226	\$ 35,341
Deferred rental receipts	44,636	45,847
Related party receivable (Note 13 b, f, g and h)	2,270	10,220
Prepays	33,449	2,477
Deferred leasing costs, net of accumulated amortization of \$2,810 (2009 - \$2,792)	5,992	6,133
Notes receivable	1,599	1,601
	<u>\$ 121,172</u>	<u>\$ 101,619</u>

4. Long term investments

	March 31	December 31
	<u>2010</u>	<u>2009</u>
Cedar Shopping Centers, Inc.	\$ 653	\$ 607
Equity One, Inc.	10,194	
Homburg Eastern European Fund B.V.	7,846	8,605
DEGI L.P.	9,321	9,321
DIM Vastgoed N.V., October 2010 closing		5,671
	<u>\$ 28,014</u>	<u>\$ 24,204</u>

5. Accounts payable and other liabilities

	March 31	December 31
	<u>2010</u>	<u>2009</u>
Trade payables (Note 13b)	\$ 71,015	\$ 93,535
Non-construction demand loans (Note 13j)	72,303	74,310
Related party payables (Notes 13b, f and g)		5,126
Income taxes payable	11,571	13,760
Notes payable	2,987	2,999
Security deposits	713	732
Homburg Capital Securities A (Note 9c)	3,298	3,866
Long term payables	10,697	11,732
Shareholders of DIM Vastgoed N.V., due October 2010	2,052	2,987
Prepaid rents and deposits	9,200	13,446
	<u>\$ 183,836</u>	<u>\$ 222,493</u>

Homburg Invest Inc.

Notes to Canadian GAAP Consolidated Interim Financial Statements

March 31, 2010 and 2009

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

5. Accounts payable and other liabilities (cont.)

The Company has available credit facilities of \$78,000 of which \$62,189 (December 31, 2009 - \$63,000) is being utilized at March 31, 2010. Of these facilities, \$15,000 (December 31, 2009 - \$15,000) is with a company controlled by the Chairman and Chief Executive Officer and is undrawn at March 31, 2010.

6. Long term debt

	March 31 2010	December 31 2009
Secured debt		
Mortgages (a)	\$ 1,877,649	\$ 1,944,686
Mortgage bonds (b)	<u>185,779</u>	<u>195,274</u>
	<u>2,063,428</u>	<u>2,139,960</u>
Unsecured debt		
Corporate non-asset backed bonds (c)	398,029	466,302
Junior subordinated notes (d)	<u>54,669</u>	<u>58,591</u>
	<u>452,698</u>	<u>524,893</u>
	2,516,126	2,664,853
Deferred financing charges, net of accumulated amortization of \$15,162 (December 31, 2009 - \$14,457)	<u>(22,646)</u>	<u>(23,129)</u>
	<u>\$ 2,493,480</u>	<u>\$ 2,641,724</u>

a) Mortgages

Long term debt has both fixed and variable interest rates. At period end the contractual weighted average interest rate for variable rate long term debt was 1.63% and for fixed rate long term debt was 5.93% (December 31, 2009 - variable - 1.79%, fixed - 6.00%). Scheduled principal installments and principal maturities on long term debt are as follows:

	Mortgages		Bonds and Junior Subordinated Notes	Total	Weighted Average Interest Rate of Maturing Debt
	Normal Principal Installments	Principal Maturities			
2010 - normal installments / maturities	\$ 27,616	\$ 42,682	\$ 24,685	\$ 94,983	
- in breach of covenant (Note 12)		408,603		408,603	
	27,616	451,285	24,685	503,586	3.88%
2011	29,614	178,757	109,552	317,923	7.46%
2012	32,308	28,081	85,658	146,047	6.65%
2013	26,237	197,913	288,015	512,165	6.14%
2014	25,711	89,999	110,014	225,724	6.46%
Later		810,681		810,681	5.11%
	<u>\$ 141,486</u>	<u>\$ 1,756,716</u>	<u>\$ 617,924</u>	<u>\$ 2,516,126</u>	

Specific investment properties with a carrying value of \$2,535,054 (December 31, 2009 - \$2,681,216) and an assignment of specific leases have been pledged as collateral for the mortgages described above and mortgage bonds payable. Included in mortgages payable are the following foreign denominated amounts, translated at period end exchange rates:

		March 31 2010	December 31 2009
US dollar denominated	USD	\$ <u>90,474</u>	\$ <u>90,861</u>
	CAD	\$ <u>92,211</u>	\$ <u>95,349</u>
EURO denominated	EUR	€ <u>887,543</u>	€ <u>843,708</u>
	CAD	\$ <u>1,217,177</u>	\$ <u>1,269,021</u>

Mortgage principal maturities include loans of \$408,603 (December 31, 2009 - \$449,274) which were in default of lending covenants at March 31, 2010 and accordingly have been classified as falling due within 2010. The carrying value of the investment properties securing these mortgages is \$354,535 at March 31, 2010 (December 31, 2009 - \$401,653). A further discussion of these loans is included in Note 12(a).

Homburg Invest Inc.
Notes to Canadian GAAP Consolidated Interim Financial Statements

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(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

6. Long term debt (cont.)

b) Mortgage bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>March 31</u> <u>2010</u>	<u>December 31</u> <u>2009</u>	<u>March 31</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
HMB2	April 25, 2010	7.50%	EUR €18,000	EUR €24,000	\$ 24,683	\$ 36,098
HMB4	Nov. 30, 2011	7.50%	EUR €20,010	EUR €20,010	27,442	30,097
HMB5	Dec. 31, 2011	7.50%	EUR €20,010	EUR €20,010	27,442	30,097
HMB6	June 30, 2012	7.50%	EUR €31,230	EUR €31,230	42,829	46,973
HMB7	June 30, 2012	7.25%	EUR €31,230	EUR €31,230	42,829	46,973
					<u>165,225</u>	<u>190,238</u>
Currency guarantee payable					<u>20,554</u>	<u>5,036</u>
					<u>\$ 185,779</u>	<u>\$ 195,274</u>

The mortgage bonds are seven year bonds issued in series and secured by a first or second charge over specific assets and a corporate guarantee.

c) Corporate non-asset backed bonds

<u>Bond Series</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>March 31</u> <u>2010</u>	<u>December 31</u> <u>2009</u>	<u>March 31</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
HB8	May 31, 2013	7.00%	EUR €50,010	EUR €50,010	\$ 68,584	\$ 75,220
HB9	October 31, 2013	7.00%	EUR €60,000	EUR €60,000	82,284	90,246
HB10	February 15, 2014	7.25%	EUR €100,005	EUR €100,005	137,147	150,418
HB11	January 15, 2015	7.25%	EUR €80,220	EUR €100,005	110,014	150,418
					<u>\$ 398,029</u>	<u>\$ 466,302</u>

The Corporate non-asset backed bonds are seven year bonds issued in series and have a corporate guarantee pledged as collateral.

d) Junior subordinated notes

The junior subordinated notes consist of EUR €25,000 (\$34,285) (December 31, 2009 - EUR €25,000 (\$37,603)) and USD \$20,000 (\$20,384) (December 31, 2009 - USD \$20,000 (\$20,988)) which 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 covenants were in default during 2009 and a waiver from the lender was obtained until April 30, 2011.

7. Income taxes

Income tax recovery differs from the amounts which would be obtained by applying the Canadian basic federal and provincial income tax rates and the rates for various foreign jurisdictions to earnings (loss) before income taxes, resulting from the following items:

	<u>Three Months</u> <u>Ended</u> <u>March 31</u> <u>2010</u>	<u>Three Months</u> <u>Ended</u> <u>March 31</u> <u>2009</u>
Earnings (loss) before income taxes from continuing operations	\$ 9,055	\$ (11,599)
Combined Canadian federal and provincial statutory income tax rate	32.25 %	31.50 %
Income tax expense (recovery) at the above tax rate	\$ 2,920	\$ (3,654)
Increase (decrease) in income taxes resulting from:		
Non-taxable portion of capital gains and market value changes	(549)	(1,246)
Provincial capital tax (net of income tax recovery)	215	243
Effect of rate change on temporary differences	(906)	833
Impact of unrecognized losses	5	
Non-deductible amounts	84	413
Effect of difference in statutory tax rates of subsidiaries	441	138
Other	(54)	536
Income tax expense (recovery)	<u>\$ 2,156</u>	<u>\$ (2,737)</u>
Comprised of:		
Current income and capital taxes	\$ 485	\$ 2,721
Future income taxes	1,671	(5,458)
	<u>\$ 2,156</u>	<u>\$ (2,737)</u>

Homburg Invest Inc.
Notes to Canadian GAAP Consolidated Interim Financial Statements

March 31, 2010 and 2009

(Unaudited - Prepared by Management)

(CAD \$ thousands except per share amounts)

7. Income taxes (cont.)

Future income tax assets (liabilities) represent the temporary differences between the tax basis of assets and liabilities and the carrying amount of assets and liabilities for financial reporting purposes. Future tax assets and liabilities are netted in the consolidated balance sheet to the extent they relate to the same fiscal entity, tax group or taxation jurisdiction. The major components are as follows:

	March 2010	December 2009
Future tax assets		
Loss carry forwards and foreign tax credits	\$ 42,814	\$ 40,356
Unrealized losses	<u>3,356</u>	<u>14,358</u>
	<u>\$ 46,170</u>	<u>\$ 54,714</u>
Future tax liabilities		
Deferred revenues and costs	\$ (12,304)	\$ (12,695)
Investment properties	<u>(47,886)</u>	<u>(70,210)</u>
	<u>\$ (60,190)</u>	<u>\$ (82,905)</u>
Net future tax asset (liability)	<u>\$ (14,020)</u>	<u>\$ (28,191)</u>

The Company has non-capital loss carryforwards of \$119,271, the benefit of which has been recognized. These expire as follows: \$499 between 2013 and 2027; \$9,806 in 2028; \$107,943 in 2029 and \$1,023 in 2030. The Company also has foreign tax credits of \$3,358 which expire between 2015 and 2018, none of which has been recognized. A benefit has not been recognized in respect of deductible temporary differences related to investment properties in the amount of \$16,631.

8. Assets and liabilities held for resale and discontinued operations

During the first quarter of 2010 the Company disposed of six (2009 - five) investment properties, and designated a further two as assets held for sale. The following represents the amounts associated with these discontinued operations.

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Statement of earnings		
Property revenue	\$ 935	\$ 2,677
Property operating expenses	<u>49</u>	<u>396</u>
	886	2,281
General and administrative	70	184
Depreciation and amortization		396
Interest	49	971
Impairment loss on investment properties		
Gain on sale of assets	<u>(6,580)</u>	<u></u>
Net income from discontinued operations before income taxes	7,347	730
Income taxes	<u>787</u>	<u>230</u>
Net income from discontinued operations	<u>\$ 6,560</u>	<u>\$ 500</u>
Balance Sheet	March 31 2010	December 31 2009
Investment Properties	\$ 24,411	\$ 52,516
Intangible assets		266
Restricted cash		5,324
Receivable and others	<u>394</u>	<u>1,268</u>
	<u>\$ 24,805</u>	<u>\$ 59,374</u>
Long term debt	\$ 10,722	\$ 21,030
Future income tax liabilities	5,473	4,288
Income taxes payable	14,552	14,552
Accounts payable	<u>533</u>	<u>1,158</u>
	<u>\$ 31,280</u>	<u>\$ 41,028</u>
Statement of Cash Flows		
Operating activities	<u>\$ 1,148</u>	<u>\$ (1,582)</u>
Investing activities	<u>\$ 22,781</u>	<u>\$ 423</u>
Financing activities	<u>\$ (10,308)</u>	<u>\$ (6,895)</u>

Homburg Invest Inc.
Notes to Canadian GAAP Consolidated Interim Financial Statements
 March 31, 2010 and 2009
(Unaudited - Prepared by Management)
 (CAD \$ thousands except per share amounts)

9. Shareholders' equity

	March 31	December 31
	<u>2010</u>	<u>2009</u>
Deficit	\$ (420,514)	\$ (433,228)
Accumulated other comprehensive earning (loss) (a)	<u>4,852</u>	<u>(13,265)</u>
	(415,662)	(446,493)
Share capital (b)	703,274	691,785
Other paid in capital (c)	36,917	43,538
Contributed surplus	<u>12,782</u>	<u>12,756</u>
	<u>\$ 337,311</u>	<u>\$ 301,586</u>

a) Accumulated other comprehensive earnings (loss)

	March 31	March 31
	<u>2010</u>	<u>2009</u>
Net unrealized foreign currency translation gains (loss)	\$ (3,374)	\$ 23,410
Net unrealized future tax liability (asset)	<u>8,226</u>	<u>(34,898)</u>
	<u>\$ 4,852</u>	<u>\$ (11,488)</u>

Accumulated other comprehensive loss represents the unrecognized exchange adjustment on the net assets of the Company's subsidiaries that operate in the United States of America, Germany, The Netherlands, and the Baltic States. The change reflects the impact of currency movements during the year on these net assets offset by effective hedges in place.

The following were the rates of exchange in effect:

	<u>\$1.00 USD</u>	<u>€1.00 EUR</u>
March 31, 2010	\$ 1.01920	\$ 1.37140
December 31, 2009	\$ 1.04940	\$ 1.50410
Average rate for 3 months 2010	\$ 1.04145	\$ 1.44309
Average rate for 3 months 2009	\$ 1.24298	\$ 1.62509

b) Share capital

The particulars of the issued and outstanding shares of the Company are as follows:

	Class A	Class B	Share Capital
	Subordinate	Multiple	
	Voting Shares	Voting Shares	
	(000's)	(000's)	
Issued and outstanding at December 31, 2008	16,790	3,151	\$ 698,535
Shares acquired under Normal Course Issuer Bid	<u>(171)</u>	<u>(2)</u>	<u>(6,750)</u>
Issued and outstanding at December 31, 2009	16,619	3,149	691,785
Shares issued re Dim 2010	<u>476</u>	<u> </u>	<u>11,489</u>
Issued and outstanding at March 31, 2010	<u>17,095</u>	<u>3,149</u>	<u>\$ 703,274</u>

c) Other paid in capital

	March 31	December 31
	<u>2010</u>	<u>2009</u>
Balance, beginning of period	\$ 43,538	\$ 11,489
Issue of shares re DIM 2010	<u>(11,489)</u>	<u> </u>
Homburg Capital Securities A: Equity component, net of tax	4,831	33,250
Deferred transaction costs	<u>37</u>	<u>(1,201)</u>
Balance, end of period	<u>\$ 36,917</u>	<u>\$ 43,538</u>

During the three months ended March 31, 2010, the Company issued EUR €2,994 (\$4,105) Homburg Capital Securities A ("HCSA"). The HCSA are 99 year securities maturing February 27, 2108, bearing an annual interest rate of 9.5%, payable quarterly.

Homburg Invest Inc.**Notes to Canadian GAAP Consolidated Interim Financial Statements**

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(Unaudited - Prepared by Management)(CAD \$ thousands except per share amounts)

10. Earnings (loss) per share

Net earnings (loss) per share is calculated based on the weighted average number of shares outstanding, as follows:

	Three Months Ended March 31 2010 (000's)	Three Months Ended March 31 2009 (000's)
Basic and Diluted		
Class A Subordinate Voting	17,095	16,785
Class B Multiple Voting	<u>3,149</u>	<u>3,150</u>
	<u><u>20,244</u></u>	<u><u>19,935</u></u>
Earnings (loss) available to Class A and Class B shareholders is calculated as:		
Net earnings (loss)	\$ 13,459	\$ (8,362)
Homburg Capital Securities equity accretion	<u>(745)</u>	<u></u>
	<u><u>\$ 12,714</u></u>	<u><u>\$ (8,362)</u></u>

11. Supplemental cash flow information

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Change in non-cash working capital and other:		
Receivables and other	\$ (28,854)	\$ (59,523)
Accounts payable and other liabilities	<u>(32,205)</u>	18,752
Deferred leasing costs, net change	(582)	(665)
Proceeds exceeding earnings on development properties		82,638
Construction properties for resale	<u>(2,251)</u>	<u>(35,569)</u>
	<u><u>\$ (63,892)</u></u>	<u><u>\$ 5,633</u></u>
Interest paid	<u>\$ 41,645</u>	<u>\$ 29,735</u>
Interest capitalized	<u>\$ 4,339</u>	<u>\$ 4,519</u>
Capital and income taxes paid	<u>\$ 2,929</u>	<u>\$ 764</u>

Homburg Invest Inc.**Notes to Canadian GAAP Consolidated Interim Financial Statements**

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12. Financial instruments and risk management**Financial instruments**

The Company does not acquire, hold or issue derivative financial instruments for trading purposes. 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	Fair Value 2010	Carrying Value 2009	Fair Value 2009
Available for Sale					
Long term investments -DEGI L.P. (a)	Cost	\$ <u>9,321</u>	Note (a)	\$ <u>9,321</u>	Note (a)
Held for Trading					
Long term investments - others (b)	Fair value (L1)	\$ 10,847	\$ 10,847	\$ 6,278	\$ 6,278
Long term investments -HEEF B.V. (b)	Fair value (L3)	7,846	7,846	8,605	8,605
Cash and cash equivalents (c)	Fair value (L1)	25,681	25,681	32,569	32,569
Currency guarantee receivable (payable) (c)	Fair value (L2)	(20,554)	(20,554)	(5,036)	(5,036)
Derivative instrument liability (c)	Fair value (L2)	(26,634)	(26,634)	(24,045)	(24,045)
		\$ <u>(2,814)</u>	\$ <u>(2,814)</u>	\$ <u>18,371</u>	\$ <u>18,371</u>
Loans and Receivables					
Restricted cash (d)	Amortized cost	\$ 17,783	\$ 17,783	\$ 23,159	\$ 23,159
Receivables and other (d)	Amortized cost	81,731	81,731	93,009	93,009
		\$ <u>99,514</u>	\$ <u>99,514</u>	\$ <u>116,168</u>	\$ <u>116,168</u>
Other Financial Liabilities					
Accounts payable and other (d)	Amortized cost	\$ 80,065	\$ 80,065	\$ 109,245	\$ 109,245
Mortgages (e)	Amortized cost	1,877,649	2,109,356	1,944,686	2,003,657
Mortgage bonds (e)	Amortized cost	165,225	169,126	190,238	207,943
Corporate non-asset backed bonds (e)	Amortized cost	398,029	390,877	466,302	462,136
Junior subordinated notes (e)	Amortized cost	54,669	80,656	58,591	88,082
Deferred financing charges (e)	Amortized cost	(22,646)		(23,129)	
Construction financing (d)	Amortized cost	94,262	94,262	94,999	94,999
		\$ <u>2,647,253</u>	\$ <u>2,924,342</u>	\$ <u>2,840,932</u>	\$ <u>2,966,062</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.

- (a) The investment in DEGI L.P. represents 10% of the limited partnership units. The partnership units are not traded in an active market. Accordingly, the investment is classified as available for sale and carried at cost, and is subject to testing for impairment in its carrying value.
- (b) Long term investments, with the exception of the investment in DEGI L.P., are carried at their fair values. The fair value of the Company's investment in Homburg Eastern European Fund B.V. is based on the proportionate share of the reported net asset value of the B.V.. The B.V. prepares its financial statements 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. The fair values of other long term investments are based on quoted market prices. A gain of \$355 resulting from the change in fair values of investments was recorded against net earnings during the period (2009 - loss of \$ 3,223).
- (c) Cash and cash equivalents, the currency guarantee receivable (payable) and derivative instrument liabilities are classified as held for trading and carried at their fair values. The Company recorded a loss of \$4,956 against net earnings for the period (2009 - loss of \$8,707).
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Homburg Invest Inc.

Notes to Canadian GAAP Consolidated Interim Financial Statements

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12. Financial instruments and risk management (cont.)

- (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, DIM Vastgoed 2010 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.

Risk management

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

a) Liquidity 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.

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 7.93:1 at March 31, 2010 (December 31, 2009 - 9.38:1) (long term debt, construction financing, long term payables and demand loans ÷ shareholders' equity). For the period ended March 31, 2010, Homburg Invest had total interest expense coverage from continuing operations of 1.08:1 (December 31, 2009 - 1.24:1) (calculated as total 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 continues to progress towards the creation of the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold the Company's eligible Canadian income producing real estate properties and related mortgage debt. A final prospectus for the initial public offering ("IPO") was filed on May 14, 2010 and it is expected that the IPO will close around on or about May 25, 2010. Cash proceeds from the IPO of approximately \$105 million will be utilized to reduce debt and satisfy other obligations. The following table presents the Company's contractual obligations at March 31, 2010:

Contractual Obligations	2010	2011	2012	2013	2014	Later
Operating leases (i)	5,151	14,428	14,448	14,679	14,679	194,594
Mortgages: Normal principal installments (i)	27,616	29,614	32,308	26,237	25,711	
Interest (i)	92,125	87,032	79,279	90,128	52,877	
Principal maturities	42,682	178,757	28,081	197,913	89,999	810,681
Bonds and junior subordinated notes:						
Interest (i)	49,642	44,941	36,653	29,734	14,647	
Principal maturities	24,685	109,552	85,658	288,015	110,014	
Non construction demand loans (ii)	72,303					
Construction financing (iii)	94,262					
Construction purchase obligations (iii)	1,290					
Other current and long term payables	5,350		10,697			
Working capital deficit (iv)	48,478					
	<u>463,584</u>	<u>464,324</u>	<u>287,124</u>	<u>646,706</u>	<u>307,927</u>	<u>1,005,275</u>
Mortgage principals: covenant breach (iv)	408,603					
	<u>\$ 872,187</u>	<u>\$ 464,324</u>	<u>\$ 287,124</u>	<u>\$ 646,706</u>	<u>\$ 307,927</u>	<u>\$ 1,005,275</u>

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12. Financial instruments and risk management (cont.)

a) Liquidity risk (cont.)

The Company's derivative instrument liability \$26,634 has been excluded from the above table as the liability relates to financial instruments that effectively fix the variable interest rate on certain mortgages, which are settled with the derivative instrument on a net basis; accordingly, interest obligations on such mortgages are shown 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 \$27,616; interest on mortgages and mortgage bonds of \$92,125; interest on corporate non asset backed bonds and junior subordinated notes of \$49,642; capital spending requirements on the income property portfolio, expected to approximate \$8 million; and operating lease commitments of \$5,151. Sources of finance towards these obligations include: cash on hand of \$25,681; net cash flow from operating activities before interest expense unrelated to development activities; the unutilized non-construction demand loans of \$15,000 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; the potential upward refinancing on certain mortgages; and distributions received from the Homburg Canada REIT, following closing.
- (ii) The Company's non construction demand loans of \$72,303 are secured by first or second charges over various investment properties not to exceed 65% of fair value. Included in the demand loans is a credit facility of \$45.0 million which is expected to be repaid using proceeds following the Homburg Canada REIT IPO. The Company anticipates that the other demand loans will remain in place based on current loan to property security values.
- (iii) The Company has \$348,885 invested in development properties that are not yet income producing. These development properties have been financed with first mortgage construction financing as well as unsecured debt totaling \$94,262 at March 31, 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 \$1,290. 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. There is a risk that delays in development projects could result in additional costs that may not ultimately be recoverable, and the potential for impairment charges.
- (iv) The working capital deficit of \$48,478 consists of trade receivables - \$33,226, related party receivables - \$2,270 and notes receivable - \$1,599, less trade payables - \$71,015, income taxes payable - \$11,571 and notes payable - \$2,987, and arises in the normal course of operations as receivables from tenants are generally on shorter payment terms than trade payables to suppliers.
- (v) The Company's junior subordinated notes, with a principal balance of \$54,669, were in default of the interest coverage ratio and the net worth covenant during the period ended March 31, 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.
- (vi) Mortgage principal maturities include loans of \$408,603 which were in default of lending covenants at March 31, 2010. Accordingly, these loans are classified as falling due within 2010. Included is a loan of \$140,734 which relates to a specific property in Germany that was vacated by the tenant, Quelle GmbH, on December 31, 2009. 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 March 31, 2010, and therefore the borrowing entities continue to be consolidated by the Company and the mortgage continues to be recorded at amortized cost. At March 31, 2010, the specific property was recorded at its fair value of \$17,100, after an impairment charge of \$157,361 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 \$140,734 and the limited amount of recourse the lender is able to recover.

Also included is a loan of \$180,545 ordinarily due in 2017 relating to the Company's portfolio of properties in the Baltic States which was in breach of an interest coverage ratio covenant at March 31, 2010. The Company obtained a waiver until May 31, 2010 and has reached agreement with the lender to remedy the default.

Additionally, there are two separate loans with a lender, of which \$49,677 is ordinarily due in 2014 and \$37,647 is ordinarily due in 2016 that were in breach of maximum loan to value covenants. The loans relate to two separate properties in The Netherlands. According to these loan agreements, the lender has recourse only to certain assets of the specific entities securing the specific loans, and not to the Company as a whole. Subsequent to period end the Company has reached agreement with the lender to remedy the default.

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.

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12. Financial instruments and risk management (cont.)

b) Interest rate risk

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

The borrowings of the Company have fixed and floating interest rate components resulting in an exposure to interest rate movements. The Company's debt consists of \$2,213,934 in fixed rate debt and \$468,306 in floating rate debt (before deferred financing charges and the currency guarantee payable) including \$166,565 in demand and short term loans which are repayable in less than one year. The Company has entered into interest rate swaps in order to manage the impact of fluctuating interest rates on EUR €159,906 (\$218,738) (December 31, 2009 - EUR €159,906 (\$240,515)) of its long term debt. Due to a reduction of interest rates in The Netherlands, Germany and the Baltic States during the period ended March 31, 2010, the impact on the consolidated statement of earnings was a loss of \$4,956 (March 31, 2009 - loss of \$8,707). The Company discloses the weighted average interest rate of maturing long term debt in Note 6. With all other variables held constant, the Company has determined that a 1% change in interest rates would result in an annualized after tax change of \$3,348 in the Company's earnings as a result of the impact on floating rate borrowings.

c) Credit risk

The Company's principal assets are commercial and residential properties. Credit risk on tenant receivables of \$17,909 (December 31, 2009 - \$20,064) 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 18% of property revenue for the period. The ability of this tenant to fulfill its long term lease obligation, or to pay rent on a timely basis could impact the Company's annual cash flow. To mitigate this risk, the tenant has issued a EUR €75,000 (\$102,855) 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.

d) Currency risk

Currency risk arises from assets and liabilities denominated in US dollars or Euros. The Company mitigates a portion of its currency risk on mortgage bonds denominated in Euros through a guarantee agreement. In support of the currency guarantee the related party has arranged an arms length credit facility agreement. The Company has also established internal hedging relationships between Euro-denominated net investments in foreign self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. At March 31, 2010, EUR €234,340 (\$321,374) (December 31, 2009 - €234,340 (\$352,471)) 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 March 31, 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 \$337 and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of \$9,806 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 \$54 and a foreign exchange gain or loss on the un-hedged US dollar denominated junior subordinated notes of \$1,458 after income taxes.

The Balance Sheets of the Company's foreign self-sustaining 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 self-sustaining 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 self-sustaining operations. To the extent that the hedges are effective, the foreign currency gain or loss on the hedging amounts of Euro-denominated debt is reflected in other comprehensive income during the period.

e) 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 18% (December 31, 2009 - 19%) 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 carrying value of \$531,101 at March 31, 2010 (December 31, 2009 - \$584,006). The Company also follows a policy of maintaining its properties to a quality standard that would support timely re-leasing to new tenants.

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12. Financial instruments and risk management (cont.)

f) 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.

13. Related party transactions

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

- a) The Company has entered into various agreements with companies commonly controlled by the Chairman and Chief Executive Officer. A summary of the various transactions is as follows:

	Three Months Ended March 31 2010	Three Months Ended March 31 2009
Rental revenue earned	\$ (220)	\$ (150)
Management agreement termination fee (l)	\$ 21,600	\$
Asset and construction management fees (m)	\$ 3,717	\$ 5,516
Property management fees incurred (m)	\$ 1,511	\$ 1,116
Insurance costs incurred	\$ 332	\$ 359
Service fees incurred	\$ 1,841	\$ 1,354
Property acquisition / disposal fees incurred (m)	\$ 929	\$ 1,305
Mortgage bond guarantee fees incurred (i)	\$ 938	\$ 672
Tenant improvements	\$	\$ 125
Bond and other debt issue costs incurred	\$ 177	\$ 458
Interest costs incurred (f) (g) (j)	\$ 103	\$ 74

- b) Included in accounts receivable is \$5,960 (accounts payable - December 31, 2009 - \$198) receivable from 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 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 \$53 (March 31, 2009 - \$53) were purchased from a corporation of which one of the Company's directors is affiliated.
- f) Also included in accounts receivable is a demand note payable plus accrued interest in the amount of EUR €2,440 (\$3,347) (accounts payable - December 31, 2009 - EUR €2,376 (\$3,573)) 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 receivable is a demand note payable plus accrued interest in the amount of USD \$336 (\$343) (accounts payable - December 31, 2009 - USD \$1,291 (\$1,355)) 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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13. Related party transactions (cont.)

- h) Included in accounts receivable is a demand note receivable in the amount of EUR €NIL (December 31, 2009 - EUR € 6,795 (\$10,220)) receivable from a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 7.25% per annum.
- i) The Company has entered into a guarantee arrangement for the principal and interest amounts of the mortgage bonds payable, with a company under the control of the Chairman and Chief Executive Officer, wherein it is protected against fluctuations in the Canadian dollar and the Euro. The cost of this guarantee per annum is 2.0% on the Series 2 Bonds, and 1.6% on the Series 4, Series 5, Series 6, and Series 7 Bonds.
- j) Included in non-construction demand loans is a promissory note payable plus interest in the amount of EUR €7,375 (\$10,114) (December 31, 2009 - EUR €7,519 (\$11,310)) 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 quarter the Company acquired a company commonly controlled by the Chairman and CEO which holds EUR €19,785 (\$27,133) Homburg Bond 11.
- l) As part of the proposed Homburg REIT IPO announced 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. 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. The payment was made on condition that management responsibilities would be fulfilled under the agreements until the finalization of the REIT IPO. As at period end the amount is recorded as prepaid, until the REIT IPO is completed, if not completed the amount paid would instead be credited against management services in accordance with the original agreements.
- m) **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;
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13. Related party transactions (cont.)

- (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 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.

14. Commitments

	2010	2011	2012	2013	2014	Later
Future minimum lease payments:						
Operating leases of subsidiaries	\$ 2,458	\$ 402	\$ 422	\$	\$	\$
Operating leases of the Company	2,609	13,914	13,914	14,567	14,567	188,931
Emphyteutic lease (a)	84	112	112	112	112	5,663
	<u>\$ 5,151</u>	<u>\$ 14,428</u>	<u>\$ 14,448</u>	<u>\$ 14,679</u>	<u>\$ 14,679</u>	<u>\$ 194,594</u>

Operating leases expensed in the statement of earnings (loss) with respect to minimum lease payments in the period ended March 31, 2010 was \$724 (March 31, 2009 - \$181).

- a) The emphyteutic lease commitment relates to land for an income producing property of a subsidiary and expires in 2065.
- b) The Company has a headlease obligation related to the investment property owned by DEGI L.P., in which the Company has a 10% interest (Note 4), for any vacant space that may exist at the date of completion of construction, which was substantially complete on December 31, 2009. Based upon current lease commitments for the related space in place at period end, the estimated value of the net headlease obligation is not material.
- c) The Company and its subsidiaries have entered into various property management agreements, expiring between 2010 and 2016 (Note 13a).
- d) The Company has construction projects underway to which it has signed commitments of \$1,290.
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15. Contingent liabilities

- a) There are claims which the Company is involved with, arising out of the ordinary course of business operations. The Company does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty.
- b) One subsidiary has received a transfer tax assessment and specific other subsidiaries of the Company have been advised of pending potential transfer tax assessments. The tax assessments, both issued and potentially to be issued, would impose transfer tax on the acquisition of certain properties by the subsidiaries. The potential liability would be EUR €10,831 (\$14,853) (December 31, 2009 - EUR €10,831 (\$16,291)) and would increase the cost of the applicable properties should the Company be unsuccessful in defending the existing assessment and the remaining potential assessments. Of this total amount: the Company has received an assessment for EUR €1,800 (\$2,468) (December 31, 2009 - EUR 1,800 (\$2,707)); an additional EUR €7,831 (\$10,739) (December 31, 2009 - EUR €7,831 (\$11,779)) was indicated for potential assessment, and to date no additional assessments have been received. The remaining amount of EUR €1,200 (\$1,646) (December 31, 2009 - EUR €1,200 (\$1,805)) relates to an acquisition in 2008, and is similar in structure to the acquisition that has already been assessed. The Company has reviewed this matter, has received legal advice, and believes it is not required to pay the transfer tax on any of these acquisitions. Accordingly, the Company has not recorded any of the proposed transfer tax in its consolidated financial statements.
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16. Segmented Information

The Company is predominately organized and managed on a geographical basis. Operating performance is evaluated by the Company's Chief Operating Decision Maker ("CODM") primarily based on the net operating income of completed investment properties, which is defined as property revenues less property operating expenses, aggregated into operating segments with similar economic characteristics represented by the following geographical areas - Canada, USA, Germany, The Netherlands and the Baltic States. Centrally managed expenses such as interest, amortization, and general and administrative costs are not included or allocated to operating segment results.

The CODM also regularly reviews the carrying value of investment properties, on a property by property basis and also on an aggregated basis by geographical operating segment. Operating segment liabilities regularly reviewed by the CODM on an aggregated basis by geographical operating segment include mortgages, and mortgage bonds payable to the extent these can be allocated to specific geographical operating segments.

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16. Segmented information (cont.)

	<u>Germany</u>	<u>Netherlands</u>	<u>The Baltics</u>	<u>Canada</u>	<u>US</u>	<u>Total</u>
Three months ended March 31, 2010						
Property revenue	\$ 16,358	\$ 8,863	\$ 5,177	\$ 35,342	\$ 4,636	\$ 70,376
Operating expenses	<u>733</u>	<u>1,066</u>	<u>1,738</u>	<u>18,695</u>	<u>1,405</u>	<u>23,637</u>
	<u>\$ 15,625</u>	<u>\$ 7,797</u>	<u>\$ 3,439</u>	<u>\$ 16,647</u>	<u>\$ 3,231</u>	<u>\$ 46,739</u>
Three months ended March 31, 2009						
Property revenue	\$ 22,358	\$ 9,213	\$ 5,773	\$ 34,912	\$ 5,099	\$ 77,355
Operating expenses	<u>340</u>	<u>942</u>	<u>1,686</u>	<u>17,823</u>	<u>1,650</u>	<u>22,441</u>
	<u>\$ 22,018</u>	<u>\$ 8,271</u>	<u>\$ 4,087</u>	<u>\$ 17,089</u>	<u>\$ 3,449</u>	<u>\$ 54,914</u>
March 31, 2010						
Investment properties	<u>\$ 689,709</u>	<u>\$ 494,938</u>	<u>\$ 221,796</u>	<u>\$ 1,013,296</u>	<u>\$ 148,516</u>	<u>\$ 2,568,255</u>
Mortgages payable	<u>\$ 664,735</u>	<u>\$ 362,195</u>	<u>\$ 180,547</u>	<u>\$ 577,968</u>	<u>\$ 92,204</u>	<u>\$ 1,877,649</u>
Mortgage bonds payable	<u>\$ 31,895</u>	<u>\$ 38,376</u>	<u>\$</u>	<u>\$ 94,954</u>	<u>\$</u>	<u>\$ 165,225</u>
December 31, 2009						
Investment properties	<u>\$ 758,747</u>	<u>\$ 544,356</u>	<u>\$ 241,297</u>	<u>\$ 1,016,876</u>	<u>\$ 153,318</u>	<u>\$ 2,714,594</u>
Mortgages payable	<u>\$ 659,610</u>	<u>\$ 400,198</u>	<u>\$ 198,516</u>	<u>\$ 591,013</u>	<u>\$ 95,349</u>	<u>\$ 1,944,686</u>
Mortgage bonds payable	<u>\$ 34,981</u>	<u>\$ 42,089</u>	<u>\$</u>	<u>\$ 113,168</u>	<u>\$</u>	<u>\$ 190,238</u>

In addition to the above, the Canada segment derived revenue from the sale of properties developed for resale of \$5,458 (December 31, 2009 - \$23,511), less costs of development of \$5,239 (December 31, 2009 - \$22,445), which resulted in gross income from operations of \$219 (December 31, 2009 - income of \$1,066). At March 31, 2010 the Germany segment included one (December 31, 2009 - one) tenant that individually represented 18% (December 31, 2009 - 19%) of the Company's consolidated property revenue for the period. Property operating expenses include \$212 relating to vacant properties (December 31, 2009 - \$252).

In addition to the Company's geographical operating segments, the following information is also provided to the Board of Directors on an aggregated basis by property classification (Retail, Industrial, Office and Residential).

	<u>Retail</u>	<u>Industrial</u>	<u>Office</u>	<u>Residential</u>	<u>Total</u>
Three Months Ended March 31, 2010					
Property revenue	\$ 21,222	\$ 5,488	\$ 41,426	\$ 2,240	\$ 70,376
Operating expenses	<u>9,747</u>	<u>1,197</u>	<u>11,195</u>	<u>1,498</u>	<u>23,637</u>
	<u>\$ 11,475</u>	<u>\$ 4,291</u>	<u>\$ 30,231</u>	<u>\$ 742</u>	<u>\$ 46,739</u>
Three Months Ended March 31, 2009					
Property revenue	\$ 22,701	\$ 8,391	\$ 44,118	\$ 2,145	\$ 77,355
Operating expenses	<u>10,535</u>	<u>803</u>	<u>9,629</u>	<u>1,474</u>	<u>22,441</u>
	<u>\$ 12,166</u>	<u>\$ 7,588</u>	<u>\$ 34,489</u>	<u>\$ 671</u>	<u>\$ 54,914</u>
March 31, 2010					
Investment properties	<u>\$ 670,858</u>	<u>\$ 265,872</u>	<u>\$ 1,579,284</u>	<u>\$ 52,241</u>	<u>\$ 2,568,255</u>
Mortgages payable	<u>\$ 374,844</u>	<u>\$ 322,523</u>	<u>\$ 1,132,026</u>	<u>\$ 48,256</u>	<u>\$ 1,877,649</u>
Mortgage bonds payable	<u>\$ 29,138</u>	<u>\$ 31,124</u>	<u>\$ 34,694</u>	<u>\$</u>	<u>\$ 94,956</u>
December 31, 2009					
Investment properties	<u>\$ 683,908</u>	<u>\$ 289,832</u>	<u>\$ 1,688,576</u>	<u>\$ 52,278</u>	<u>\$ 2,714,594</u>
Mortgages payable	<u>\$ 389,371</u>	<u>\$ 354,332</u>	<u>\$ 1,147,073</u>	<u>\$ 53,910</u>	<u>\$ 1,944,686</u>
Mortgage bonds payable	<u>\$ 40,982</u>	<u>\$ 34,136</u>	<u>\$ 38,051</u>	<u>\$</u>	<u>\$ 113,169</u>

At March 31, 2010 mortgage bonds payable totalled \$165,225, exclusive of the currency guarantee payable of \$20,554. Of this amount \$70,269 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$94,956 is allocated to specific segments above. At December 31, 2009, mortgage bonds payable totalled \$190,238, exclusive of the currency guarantee payable of \$5,036. Of this amount \$77,069 related to properties under development and funds intended for acquisitions and development projects which will be located in Canada. The remaining \$113,169 is allocated to specific segments above.

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17. Subsequent events

a) Management is continuing to work towards the previously announced restructuring of the Company announced on December 16, 2009. As the initial step in the reorganization, the final prospectus for the initial public offering ("IPO") of the Homburg Canada Real Estate Investment Trust ("REIT") was filed on May 14, 2010, and it is expected that the IPO will close around on or about May 25, 2010. On closing, the Company will retain a significant non-controlling interest in the REIT of approximately 45% and will apply equity accounting to its remaining investment. The financial statements for the three month period ended March 31, 2010 do not give effect to the transactions that will occur as a result of Closing.

b) Subsequent to quarter end, the Company sold two properties for gross proceeds of approximately \$19.1 million (Note 8). Approximately \$18.2 million of the net proceeds was utilized towards the partial redemption of Homburg Mortgage Bond 2.

c) Subsequent to quarter end, the Company sold its investment in 536,601 Equity One shares (Note 4) for proceeds of approximately USD \$10.3 million.

d) Subsequent to period end the Company received approval from the Nova Scotia Securities Commission to early adopt IFRS. The Company anticipates that the financial statements prepared for the three months ended March 31, 2010 will be the last prepared under Canadian GAAP.
