This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Homburg Invest Inc. ("Homburg Invest" or the "Company") annual MD&A and audited consolidated financial statements and accompanying notes for the year ended December 31, 2009, and the unaudited consolidated interim financial statements and accompanying notes for the three month period ended March 31, 2010 prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

In compliance with National Instrument 51-102 of the Canadian Securities Administrators, Management notifies readers that the unaudited consolidated interim financial statements and Management's Discussion and Analysis ("MD&A") for the period ended March 31, 2010 and March 31,2009, have not been reviewed by the Company's external auditors.

**DATE OF MD&A**
May 14, 2010

**FORWARD LOOKING ADVISORY**

Certain information included in this Management Discussion and Analysis ("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.

**PROPERTIES OWNED**

Homburg Invest Inc. ("Homburg Invest", "HII" or the "Company") is a public real estate company owning 249 properties with an estimated net book value ("NBV") of $2.9 billion and 19.7 million square feet of space as at March 31, 2010 (excluding discontinued operations and assets held for sale) in four main asset classes (office, retail, industrial, and multi-family residential) and in five main geographical areas (Canada, Germany, The Netherlands, the Baltic States (Latvia, Estonia and Lithuania) and the United States of America ("USA").

| | **March 31, 2010** *(Millions, except for properties and units)* | | | | December 31, 2009 *(Millions, except for properties and units)* | | | |
|---|---|---|---|---|---|---|---|---|
| | **Buildings** | **NBV** | **Units** | **Gross Sq.Ft.** | Buildings | NBV | Units | Gross Sq.Ft. |
| **By geographical segment** | | | | | | | | |
| Germany | **18** | **$ 689.7** | | **5.1** | 18 | $ 758.7 | | 5.1 |
| The Netherlands | **32** | **494.9** | | **3.7** | 32 | 544.4 | | 3.7 |
| Baltic States | **53** | **221.8** | | **1.0** | 53 | 241.3 | | 1.0 |
| Canada | **110** | **1,013.3** | **762** | **8.9** | 110 | 1,016.9 | 762 | 8.9 |
| USA | **20** | **148.6** | | **1.0** | 20 | 153.3 | | 1.0 |
| Total | **233** | **$ 2,568.3** | **762** | **19.7** | **233** | **$ 2,714.6** | **762** | **19.7** |
| **By property type** | | | | | | | | |
| Office | **101** | **$ 1,579.3** | | **6.9** | 101 | $ 1,688.6 | | 6.9 |
| Retail | **82** | **670.9** | | **5.8** | 82 | 683.9 | | 5.8 |
| Residential | **12** | **52.2** | **762** | **0.7** | 12 | 52.3 | 762 | 0.7 |
| Industrial | **38** | **265.9** | | **6.4** | 38 | 289.8 | | 6.4 |
| Sub total | **233** | **2,568.3** | **762** | **19.7** | **233** | **2,714.6** | **762** | **19.7** |
| Land and property held for future development (a) | **8** | **122.2** | | | 8 | 120.0 | | |
| Construction properties being developed for resale (b) | **6** | **112.4** | | | 6 | 115.1 | | |
| Investment property under construction (c) | **2** | **114.2** | | | 2 | 109.8 | | |
| **Total** | **249** | **$ 2,917.1** | **762** | **19.7** | **249** | **$ 3,059.5** | **762** | **19.7** |

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 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 - 11 condominium units in Calgary, Alberta (Castello); 23 condominium units in the Eau Claire area of Calgary, Alberta (Churchill Estates); 70 condominium units in Grande Prairie, Alberta (Inverness Estates); 18 condominium units in Charlottetown, Prince Edward Island (Pownell Street); a one third interest in 99 condominium units in Montreal, Quebec (333 Sherbrooke East); and a 458 unit condominium complex in Calgary, Alberta (Kai Towers).

c) Investment property under construction - a parcel of land in Calgary, Alberta that will be developed into a seven building office campus; and a parcel of land in Charlottetown, Prince Edward Island that will be developed into an office tower and hotel.

**NON-GAAP FINANCIAL MEASURES**

This MD&A includes measures widely accepted within the real estate industry which are not defined by Canadian generally accepted accounting principles ("GAAP"). These measures include Net Operating Income ("NOI"), Funds From Operations ("FFO") and FFO per share. These are not defined measures calculated in accordance with GAAP 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 earnings (loss) adjusted for depreciation and amortization, future and capital income taxes (recovery), loss (gain) on sale of assets, fair value change in financial instruments, loss (gain) on derivative instruments, goodwill impairment loss, impairment loss on development and investment properties, changes in the fair value of assets classified as available for sale, and foreign exchange loss (gain).

c) FFO per share is calculated as FFO divided by either the basic or diluted weighted average number of shares.

The following table reconciles GAAP net earnings (loss) to FFO for the three months ended March 31, 2010 and 2009:

| | **3 Months Ended March 31, 2010** | 3 Months Ended March 31, 2009 |
|---|---|---|
| | *(Millions)* | *(Millions)* |
| Net earnings (loss) from continuing operations | **$ 6.9** | $ (8.9) |
| Add (deduct): | | |
| Gain on sale of assets | **(4.5)** | (1.6) |
| Depreciation and amortization | **12.3** | 19.3 |
| Amortization of financing costs | **1.4** | 1.0 |
| Amortization of mark to market leases | | 2.9 |
| Future and capital income taxes (recovery) | **1.9** | (5.1) |
| Fair value change in financial instruments | **(0.4)** | 3.2 |
| Loss on derivative instruments | **5.0** | 8.7 |
| Foreign exchange gain | **(13.2)** | (7.2) |
| **Funds from operations (FFO)** | **9.4** | 12.3 |
| Deduct: net income on sale of properties developed for resale | **(0.2)** | (1.1) |
| **FFO, net of sale of properties developed for resale** | **$ 9.2** | $ 11.2 |

*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:

| | **Q1 Average Rate** | | **Q4 Average Rate** | | **Q3 Average Rate** | | **Q2 Average Rate** | |
|---|---|---|---|---|---|---|---|---|
| EUR : CAD | 2010 | 1.44309 | 2009 | 1.58706 | 2009 | 1.59533 | 2009 | 1.60749 |
| EUR : CAD | 2009 | 1.62509 | 2008 | 1.56127 | 2008 | 1.55022 | 2008 | 1.54209 |
| ***% Change*** | | ***(11.2)%*** | | ***1.7%*** | | ***2.9%*** | | ***4.2%*** |
| USD : CAD | 2010 | 1.04145 | 2009 | 1.14172 | 2009 | 1.16997 | 2009 | 1.20559 |
| USD : CAD | 2009 | 1.24298 | 2008 | 1.06669 | 2008 | 1.01855 | 2008 | 1.00752 |
| ***% Change*** | | ***(16.2)%*** | | ***7.0%*** | | ***14.9%*** | | ***19.7%*** |

| | **Quarter End Rate** | | **Quarter End Rate** | | **Quarter End Rate** | | **Quarter End Rate** | |
|---|---|---|---|---|---|---|---|---|
| EUR : CAD | Q1 2010 | 1.37140 | Q4 2009 | 1.50410 | Q3 2009 | 1.58480 | Q2 2009 | 1.62400 |
| EUR : CAD | Q4 2009 | 1.50410 | Q3 2009 | 1.58480 | Q2 2009 | 1.62400 | Q1 2009 | 1.65040 |
| ***% Change*** | | ***(8.8)%*** | | ***(5.1)%*** | | ***(2.4)%*** | | ***(1.6)%*** |
| USD : CAD | Q1 2010 | 1.01920 | Q4 2009 | 1.04940 | Q3 2009 | 1.08610 | Q2 2009 | 1.15600 |
| USD : CAD | Q4 2009 | 1.04940 | Q3 2009 | 1.08610 | Q2 2009 | 1.15600 | Q1 2009 | 1.24960 |
| ***% Change*** | | ***(2.9)%*** | | ***(3.4)%*** | | ***(6.0)%*** | | ***(7.5)%*** |

| | **Q1 Average Rate** | | **Q4 Average Rate** | | **Q3 Average Rate** | | **Q2 Average Rate** | |
|---|---|---|---|---|---|---|---|---|
| EUR : CAD | 2009 | 1.62509 | 2008 | 1.56127 | 2008 | 1.55022 | 2008 | 1.54209 |
| EUR : CAD | 2008 | 1.50465 | 2007 | 1.46919 | 2007 | 1.48570 | 2007 | 1.50959 |
| ***% Change*** | | ***8.0%*** | | ***6.3%*** | | ***4.3%*** | | ***2.2%*** |
| USD : CAD | 2009 | 1.24298 | 2008 | 1.06669 | 2008 | 1.01855 | 2008 | 1.00752 |
| USD : CAD | 2008 | 1.00465 | 2007 | 1.07440 | 2007 | 1.10606 | 2007 | 1.13599 |
| ***% Change*** | | ***23.7%*** | | ***(0.7)%*** | | ***(7.9)%*** | | ***(11.3)%*** |

| | **Quarter End Rate** | | **Quarter End Rate** | | **Quarter End Rate** | | **Quarter End Rate** | |
|---|---|---|---|---|---|---|---|---|
| EUR : CAD | Q1 2009 | 1.65040 | Q4 2008 | 1.72380 | Q3 2008 | 1.50010 | Q2 2008 | 1.59740 |
| EUR : CAD | Q4 2008 | 1.72380 | Q3 2008 | 1.50010 | Q2 2008 | 1.59740 | Q1 2008 | 1.61660 |
| ***% Change*** | | ***(4.3)%*** | | ***14.9%*** | | ***(6.1)%*** | | ***(1.2)%*** |
| USD : CAD | Q1 2009 | 1.24960 | Q4 2008 | 1.22280 | Q3 2008 | 1.03820 | Q2 2008 | 1.01110 |
| USD : CAD | Q4 2008 | 1.22280 | Q3 2008 | 1.03820 | Q2 2008 | 1.01110 | Q1 2008 | 1.02320 |
| ***% Change*** | | ***2.2%*** | | ***17.8%*** | | ***2.7%*** | | ***(1.2)%*** |

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 March 31, 2010 and €100.0 million at December 31, 2009. Average quarterly Euro exchange rates compared to the Canadian dollar fluctuated during the last eight quarters, peaking at $1.63 in Q1 2009 from a low average rate of $1.44 in Q1 2010 (a variance of 13.2%). The average rate for Q1 2010 of $1.44 was 11.2% lower than the comparative period average rate of $1.63 which had an unfavourable impact on the results of the Company's European operations when comparing Q1 2010 to Q1 2009. The closing rate at March 31, 2010 of $1.37 was 8.8% 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 March 31, 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 less than 7% of NOI in 2009 and less than 6% of NOI in 2008 . Fluctuations in the US dollar also impact the Company's unhedged US dollar denominated debt which consisted of US$20 million at both March 31, 2010 and December 31, 2009.

**SUMMARY OF QUARTERLY RESULTS**

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2010** | **Dec 31 2009** | **Sept 30 2009** | **Jun 30 2009** | **Mar 31 2009** | **Dec 31 2008** | **Sep 30 2008** | **Jun 30 2008** |
| | *(Millions, except for per share amounts)* | | | | | | | |
| Property revenue | **70.4** | 77.3 | 73.5 | 79.6 | 77.4 | 80.2 | 73.1 | 74.2 |
| Sale of properties developed for resale | **5.5** | 13.0 | 8.7 | 18.6 | 23.5 | 12.5 | 41.4 | 48.5 |
| Dividend income and distributions | **0.4** | 0.7 | 0.5 | 0.4 | | | | 0.1 |
| Other income | **18.1** | 8.1 | 6.3 | 6.3 | 7.5 | | 7.4 | 0.2 |
| Gain on derivative instrument | | | | 3.9 | | | | |
| Gain on sale of assets | **4.5** | | | 0.6 | 1.6 | 0.4 | | |
| **Total revenues and other gains** | **98.9** | 99.0 | 89.0 | 109.4 | 110.0 | 93.2 | 121.9 | 122.9 |
| **Net operating income** | **46.7** | 46.4 | 51.4 | 54.6 | 54.9 | 56.7 | 52.8 | 54.3 |
| Earnings (loss) before taxes from continued operations | **$ 9.1** | $ (246.4) | $ (30.1) | $ (1.8) | $ (11.6) | $ (124.6) | $ 6.8 | $ 7.8 |
| Per Share - Basic | **$ 0.45** | $ (12.51) | $ (1.54) | $ (0.11) | $ (0.58) | $ (6.24) | $ 0.34 | $ 0.39 |
| Per Share - Diluted | **$ 0.45** | $ (12.51) | $ (1.54) | $ (0.11) | $ (0.58) | $ (6.24) | $ 0.33 | $ 0.38 |
| **Net earnings (loss) from continued operations** | **$ 6.9** | $ (216.7) | $ (20.6) | $ 3.7 | $ (8.9) | $ (118.5) | $ 4.8 | $ 9.8 |
| Per Share - Basic | **$ 0.31** | $ (11.09) | $ (1.04) | $ 0.19 | $ (0.45) | $ (5.93) | $ 0.24 | $ 0.49 |
| Per Share - Diluted | **$ 0.31** | $ (11.09) | $ (1.04) | $ 0.19 | $ (0.45) | $ (5.93) | $ 0.23 | $ 0.48 |
| **Net earnings from discontinued operations** | **$ 6.6** | $ (1.5) | $ 0.4 | $ 0.4 | $ 0.5 | $ 0.4 | $ 0.5 | $ 0.4 |
| Per Share - Basic | **$ 0.32** | $ (0.11) | $ 0.02 | $ 0.02 | $ 0.03 | $ 0.02 | $ 0.02 | $ 0.02 |
| Per Share - Diluted | **$ 0.32** | $ (0.11) | $ 0.02 | $ 0.02 | $ 0.03 | $ 0.02 | $ 0.02 | $ 0.02 |
| **Net earnings (loss)** | **$ 13.5** | $ (218.3) | $ (20.9) | $ 3.3 | $ (8.4) | $ (118.9) | $ 4.3 | $ 9.3 |
| Per Share - Basic | **$ 0.63** | $ (11.09) | $ (1.06) | $ 0.17 | $ (0.42) | $ (5.95) | $ 0.22 | $ 0.22 |
| Per Share - Diluted | **$ 0.63** | $ (11.09) | $ (1.06) | $ 0.17 | $ (0.42) | $ (5.95) | $ 0.21 | $ 0.47 |
| **Funds from operations** | **$ 9.3** | $ 0.2 | $ 10.0 | $ 10.2 | $ 10.2 | $ 5.0 | $ 8.1 | $ 10.0 |
| Per Share - Basic | **$ 0.46** | $ 0.01 | $ 0.50 | $ 0.52 | $ 0.52 | $ 0.25 | $ 0.41 | $ 0.50 |
| Per Share - Diluted | **$ 0.46** | $ 0.01 | $ 0.50 | $ 0.50 | $ 0.52 | $ 0.25 | $ 0.40 | $ 0.49 |
| **Total assets** | **$ 3,193** | $ 3,367 | $ 3,802 | $ 3,875 | $ 3,957 | $ 4,025 | $ 2,361 | $ 3,829 |
| **Total long term financial liabilities** | **$ 2,493** | $ 2,642 | $ 2,793 | $ 2,848 | $ 2,892 | $ 2,982 | $ 2,616 | $ 2,723 |
| **Dividend declared per share** | **$ NIL** | $ NIL | $ NIL | $ NIL | $ NIL | $ NIL | $ 2.25 | $ NIL |

*First Quarter Result*

NOI was $46.7 million in Q1 2010, $0.3 million higher than the $46.4 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 a 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 recorded a profit before taxes from continued operations for the first quarter of 2010 of $9.1 million ($0.45 per share), compared to net loss before taxes from continued operations of $11.6 million in the same period in 2009 (loss of $0.58 per share), a variance of $20.7 million. The increase relates primarily to the following:

- NOI was $8.2 million lower in Q1 2010 compared to Q1 2009, primarily due to one 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 an $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 $1.1 million gross profit in Q1 2009, a variance of $1.3 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.
- Depreciation and amortization was $6.9 million lower in Q1 2010 compared to Q1 2009, due primarily to write-off's of leasehold improvements and other related intangible assets in the comparative period which did not recur in Q1 2010;
- Lower interest and financing costs 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 $9.2 million in Q1 2010 compared to $11.2 million in Q1 2009. The decrease of $2.0 million primarily related to lower NOI of $8.2 million, offset by the foreign exchange gain.

*Prior Quarter Results*
NOI was $46.4 million in Q4 2009, $5.0 million lower than the $51.4 million recorded in Q3 2009. Though property revenue increased by $3.8 million, this was mainly as a result of the $5.6 million bad debt expense relating to Quelle, a former tenant in Germany, as described earlier. The average Canadian dollar foreign exchange rate for the Euro was almost unchanged in Q4 2009 versus Q3 2009, and therefore did not significantly impact the results.

The Company incurred a loss before taxes from continued operations for the fourth quarter of 2009 of $246.4 million ($12.51 per share), compared to net loss before taxes from continued operations of $124.6 million in the same period in 2008 ($6.24 per share), a variance of $121.8 million. The increase relates primarily to the following:

- The Company determined that certain of its investment properties were impaired. This resulted from weakening real estate prices and uncertainty as to the Company's ability to obtain replacement financing for certain properties where either the related debt is in default of its covenants, or financing is due in 2010 and is unlikely to be refinanced based on the property's current loan to value ratio. Where the fair value was determined to be below the carrying value, the carrying value was considered to be not recoverable, which resulted in an impairment charge of $182.0 million being recorded in Q4 2009 ($nil in Q4 2008).
- An impairment loss on development properties of $43.6 million in Q4 2009 ($nil in Q4 2008) as described earlier.
- The Company realized an $18.9 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of properties developed for resale in Q4 2009, compared to a $2.1 million gross profit in Q4 2008, a variance of $21.0 million. The Q4 2009 loss resulted primarily from unexpected budget adjustments related to the Homburg-Harris Centre.
- A fair value gain on investments of $0.8 million in Q4 2009, compared to a loss of $11.0 million in Q4 2008, a variance of $11.8 million, resulting from changes in the market prices on the Company's quoted investments.
- A foreign exchange gain of $8.0 million was recorded in Q4 2009, compared to a loss of $25.1 million in Q4 2008. The gain in Q4 2009 mainly resulted from a 2.4% strengthening of the Canadian dollar compared to the Euro, from $1.62:€1 at September 30, 2009 to $1.58:€1 at December 31, 2009, which decreased the value of the Company's €100 million of unhedged debt by $4.7 million. Similarly, the strengthening of the Canadian dollar compared to the US dollar decreased the value of the Company's unhedged US$25 million debt by approximately $1.9 million.
- A goodwill write-off in Q4 2008 of $63.5 million compared to $NIL in 2009.

NOI was $51.4 million in Q3 2009, slightly lower than the $54.6 million recorded in Q2 2009. 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 from continued operations for the third quarter of 2009 of $30.1 million (loss before taxes of $1.54 per share), compared to net earnings before taxes of $6.8 million in the same period in 2008 (net earnings before taxes of $0.34 per share), a variance of $36.9 million. The significant change relates primarily to the following:

- The Company realized 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 in Q3 2009, compared to a $10.2 million gross profit in Q3 2008, a variance of $29.0 million. The Q3 2009 loss resulted primarily from budget adjustments related to unexpected increased costs on the Homburg-Harris Centre as the project neared completion. This project continues to be accounted for on the percentage of completion method during completion of construction for the buyer. The Company also recorded a gross loss in Q3 2009 resulting from the sale of condominium units at low market prices.
- A loss on derivative instruments of $3.3 million (negligible loss in Q3 2008) resulting from recovering interest rates.
- An impairment loss on development properties of $5.5 million in Q3 2009 ($nil in Q3 2008) due to a change in market conditions that impacted forecasted cash flows on the Company's condominium developments.
- A lower fair value loss on investments of $1.1 million in Q3 2009, compared to a loss of $5.0 million in Q3 2008, a variance of $3.9 million, resulting from changes in the market prices on the Company's quoted investments.
- A foreign exchange gain of $5.4 million was recorded in Q3 2009, compared to a gain of $6.4 million in Q3 2008. The gain in Q3 2009 mainly resulted from a 2.4% strengthening of the Canadian dollar compared to the Euro, from $1.62:€1 at June 30, 2009 to $1.58:€1 at September 30, 2009, which decreased the value of the Company's €100 million of unhedged debt by $4.9 million.

NOI was $54.6 million in Q2 2009, slightly lower than the $54.9 million recorded in the prior quarter, reflecting the relative stability of the Company's tenant base and occupancy levels during these periods. Average foreign exchange rates for the second quarter of 2009 were slightly lower than the previous quarter which primarily contributed towards the slight decrease in NOI. The average Canadian dollar foreign exchange rate for the Euro was 1.1% lower and the US dollar rate was 3% lower in Q2 2009 compared to Q1 2009 respectively.

The Company recorded a loss before tax for the second quarter of 2009 of $1.8 million (loss of $0.11 per share) compared to earnings before tax of $7.8 million in the second quarter of 2008 (earnings of $0.39 per share), a decrease of $9.6 million. The most significant changes relate to the following:

- The Company realized a $7.3 million gross loss (calculated as revenues less cost of sales on properties developed for resale) from the sale of development properties in Q2 2009, compared to a $16.7 million gross profit in Q2 2008, a variance of $24.0 million, mainly resulting from budget adjustments on the Homburg-Harris Centre, as well as the sale of condominium units at low market prices.
- A fair value gain on investment of $2.3 million in Q2 2009, compared to a loss of $2.5 million in Q2 2008, a variance of $4.8 million, resulting from recovering market prices on the Company's quoted investments.
- A foreign exchange gain of $3.6 million in Q2 2009 (negligible gain in Q2 2008) mainly resulting from a 1.6% strengthening of the

Canadian dollar compared to the Euro, from $1.65:€1 at March 31, 2009 to $1.62:€1 at June 30, 2009, which decreased the value of the Company's €125 million of unhedged debt by $3.3 million.

- A gain on derivative instruments of $3.9 million (negligible loss in Q2 2008) resulting from recovering interest rates.

The Company incurred a net loss for the first quarter of 2009 of $8.4 million (loss of $0.42 per share), compared to net earnings of $9.2 million in the same period in 2008 (earnings of $0.47 per share), a variance of $17.6 million. The most significant variance was gross profit on the sale of development properties (calculated as revenues less cost of sales on properties developed for resale) which was approximately $19 million lower in Q1 2009 compared to Q1 2008, predominately due to lower activity on the construction of the Homburg-Harris Centre in Calgary, Alberta. This development was sold in the fourth quarter of 2007 when the project was approximately 50% complete, resulting in significant revenue being recognized during that period. Subsequently, revenue continues to be recognized on the percentage of completion basis throughout 2009. In addition, in Q1 2008, the Company sold an office development in Calgary, Alberta, for approximately $34 million and a gain of $2.4 million, which did not recur in Q1 2009. The Company also recorded a foreign exchange gain of approximately $7.2 million in Q1 2009 (Q1 2008 - loss of $1.0 million) due to a strengthening of the Canadian dollar against the Euro which decreased the Canadian dollar equivalent of unhedged Euro denominated debt by approximately $8 million. Also during the first quarter of 2009, as a result of low interest rates on variable rate debt, the Company recorded a loss of $8.7 million (2008 - $0.9 million loss) on derivative instruments.

NOI was relatively stable in Q2, Q3 and Q4 of 2008; although it was unfavourably impacted from a slight weakening of the Euro exchange rate compared to the Canadian dollar, which stood at $1.51 in Q2 2007, $1.49 in Q3 2007 and $1.47 in Q4 2007. The increase in NOI in the fourth quarter of 2007 related to the CN Central Station, the SEB portfolio in the Baltic States, and the Cedar Shopping Center portfolio in the US, which impacted results for a portion of that three month period. These acquisitions mainly contributed towards the increase of $12.3 million in NOI from $42.5 million in Q4 2007 to $54.8 million in Q1 2008, as well as a slight strengthening of the Euro from $1.47 to $1.50 during that period.

Earnings before taxes were relatively stable in Q2 2008 and Q3 2008. The Company incurred a net loss for the fourth quarter of 2008 of $118.9 million (loss of $5.95 per share), mainly related to a goodwill write-off of $63 million, a loss on derivatives of approximately $18 million, a foreign exchange loss of approximately $25 million, and a loss on fair value changes in investments of $11 million, all primarily due to changes in foreign exchange rates, interest rates, and market prices of investments and the loss of portfolio premiums as the global economic crisis unfolded in late 2008.

**RESULTS OF OPERATIONS**

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.

| *Geographical Segments (in millions unless otherwise stated)* | Germany | Netherlands | The Baltics | Canada | US | Total |
|---|---|---|---|---|---|---|
| **Three months ended March 31, 2010** | | | | | | |
| **Property revenue** | **$ 16.4** | **$ 8.9** | **$ 5.2** | **$ 35.3** | **$ 4.6** | **$ 70.4** |
| **Operating expenses** | **0.7** | **1.1** | **1.7** | **18.7** | **1.4** | **23.6** |
| **Net operating income** | **$ 15.7** | **$ 7.8** | **$ 3.5** | **$ 16.6** | **$ 3.2** | **$ 46.8** |
| ***Occupancy rate at Mar 31, 2010*** | ***80.1%*** | ***73.0%*** | ***88.4%*** | ***95.5%*** | ***94.2%*** | |
| Year ended March 31, 2009 | | | | | | |
| Property revenue | $ 22.4 | $ 9.2 | $ 5.8 | $ 34.9 | $ 5.1 | $ 77.4 |
| Operating expenses | 0.3 | 0.9 | 1.7 | 17.8 | 1.7 | 22.4 |
| Net operating income | $ 22.1 | $ 8.3 | $ 4.1 | $ 17.1 | $ 3.4 | $ 55.0 |
| *Occupancy rate at Mar 31, 2009* | *100.0%* | *84.0%* | *89.1%* | *95.4%* | *94.5%* | |

Total property revenue was $70.4 million in Q1 2010, compared to $77.4 million in Q1 2009, a decrease of 9.0%. 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 11.2% 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 Canada segment increased slightly to $35.3 million, representing a 1.1% increase from $34.9 million in 2009. This is reflective of the stable base of investment properties, tenants, leasing and occupancy rates during these periods.

Property operating expenses increased in all segments except the US in 2010 compared to 2009 from $22.4 million 2009 to $23.6 million in 2010 for an increase of $1.2 million. The Baltic's were unchanged.

NOI decreased by 14.9% 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 March 31, 2009 to 80.1% at March 31, 2010, representing approximately 2.4 million square feet in the Industrial segment.

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

| *Property Type Segments (in millions unless otherwise stated)* | Retail | Industrial | Office | Residential | Total |
|---|---|---|---|---|---|
| **Three months ended March 31, 2010** | | | | | |
| **Property revenue** | **$ 21.2** | **$ 5.5** | **$ 41.4** | **$ 2.2** | **$ 70.3** |
| **Operating expenses** | **9.7** | **1.2** | **11.2** | **1.5** | **23.6** |
| **Net operating income** | **$ 11.5** | **$ 4.3** | **$ 30.2** | **$ 0.7** | **$ 46.7** |
| ***Occupancy rate at Mar 31, 2010*** | ***96.3%*** | ***70.6%*** | ***92.9%*** | ***98.6%*** | |
| Year ended March 31, 2009 | | | | | |
| Property revenue | $ 22.7 | $ 8.4 | $ 44.1 | $ 2.1 | $ 77.3 |
| Operating expenses | 10.5 | 0.8 | 9.6 | 1.5 | 22.4 |
| Net operating income | $ 12.2 | $ 7.6 | $ 34.5 | $ 0.6 | $ 54.9 |
| *Occupancy rate at Mar 31, 2009* | *96.5%* | *90.4%* | *95.1%* | *96.9%* | |

The decrease in the overall occupancy in the Industrial portfolio from 90.4% in 2009 to 70.6% in 2010 was due to Quelle, as discussed previously.

The retail portfolio consists of 82 (December 31, 2009 - 82) retail properties, including the Confederation Court Mall in Charlottetown, PEI, Place Alexis Nihon in Montreal, Quebec, and three big box Zellers locations across Canada, having total rentable square footage of 5.8 million square feet. The retail rental revenue and net operating income for the first quarter on the properties held on March 31, 2010 have decreased 6.6% and 5.7% respectively over the same period in 2009. Overall occupancy in the retail portfolio was 96.3% at March 31, 2010 (96.5% - December 31, 2009).

The industrial portfolio consists of 38 (December 31, 2009 - 38) industrial buildings located in Canada, the US and Europe with a total area of 6.4 million square feet. The Company's industrial buildings generated $5.5 million total rental revenue in the first quarter of 2010 and $4.3 million in net operating income compared to $8.4 million total rental revenue in the first quarter of 2010 and $7.6 million in net operating income, related to the decrease in overall occupancy in the industrial portfolio to 70.6% at March 31, 2010 (90.4% - December 31, 2009). This reduction is primarily due to the loss of the former tenant, Quelle, as previously discussed.

The office portfolio consists of 101 (December 31, 2009 - 101) small to medium sized office buildings in Canada, the United States and Europe, with a total area of 6.9 million square feet. (December 31, 2009 - 6.9 million square feet). First-quarter property revenue was $41.4 million compared to $44.1 million in the same period of 2009 while net operating income was $30.2 million versus $34.5 million in 2009. The reduction of net operating income of $4.3 million to the decreased occupancy level, and the lower average exchange rate as previously discussed. Overall occupancy in the office portfolio was 92.9% at March 31, 2010 (95.1% - December 31, 2009).

The residential portfolio is primarily located in Nova Scotia, New Brunswick and Quebec, Canada, and consists of 12 (December 31, 2009 - 12) properties with 762 (December 31, 2009 - 762) units as at March 31, 2010. The increase in first-quarter property revenue from $2.1 million in 2009 to $2.2 million in 2010 is related to the high overall average occupancy rate in the residential portfolio during 2010. At March 31, 2010 the occupancy rate was 98.6% compared to 96.9% at December 31, 2009.

*Properties Developed for Resale*
Revenue from the sale of properties developed for resale decreased by $18.0 million from $23.5 million in Q1 2009 to $5.5 million in Q1 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 Q1 2009 are not recurring, as well as lower sales activity on condominium units in Q1 2010. The net profit from the sale of development properties for resale was $0.2 million in Q1 2010, compared to a net profit of $1.1 million in Q1 2009.

**BALANCE SHEET HIGHLIGHTS**

Total assets decreased from $3,366.7 million at December 31, 2009 to $3,193.1 million at March 31, 2010. The table below summarizes the Company's assets:

| | **March 31 2010** | December 31 2009 |
|---|---|---|
| | *(Millions)* | *(Millions)* |
| Investment properties | **$ 2,568.3** | $ 2,714.6 |
| Development properties | **348.8** | 344.8 |
| Receivables and other | **121.2** | 101.6 |
| Intangible assets | **58.6** | 66.3 |
| Long term investments | **28.0** | 24.2 |
| Restricted cash | **17.8** | 23.2 |
| Cash | **25.7** | 32.6 |
| Assets of discontinued operations | **24.8** | 59.4 |
| | **$ 3,193.2** | $ 3,366.7 |

*Investment Properties*
Investment properties decreased by $146.3 million from $2,714.6 million at December 31, 2009 to $2,568.3 million. The balance was reduced by depreciation and amortization expense of $12.3 million as well as the impact of foreign currency translation adjustments on overseas assets which was significant due to a decrease in the Euro foreign exchange rate of 8.8%.

*Development Properties*
Development properties increase marginally by $4.0 million due to the continued capitalization of costs associated with the Company's various condominium development projects located in Canada.

*Intangible Assets/Liabilities*
Intangible assets relate to above market leases, in-place leases, lease origination costs and tenant relationships acquired as a result of business combinations. There were no additions to intangible assets in Q1 2010. The reduction relates to amortization of previous amounts capitalized, as well as a decrease relating to Euro denominated amounts, as described earlier.

*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. Also included here is the $21.6 million early termination of the Canadian operating component of the Master Asset Management Agreement in February. Should the launch of Homburg Canada REIT be successful in the second quarter of 2010, this amount will be expensed.

*Long Term Investments*
The long term investments totaled $28.0 million at March 31, 2010 compared to $24.2 million at December 31, 2009. The difference mainly relates to an increase with respect to the Company's investments in other publicly listed real estate enterprises, primarily on the conversion of its interests in DIM Vastgoed N.V. ("DIM") to Equity One shares (NYSE:EQY) in Q1 2010.

*Capital Structure*
The table below summarizes the Company's capital structure.

| | **March 31, 2010** | | December 31, 2009 | |
|---|---|---|---|---|
| | *(Millions)* | | *(Millions)* | |
| Long term debt | **$ 2,493.5** | **82.7 %** | $ 2,641.7 | 84.3 % |
| Construction financing | **94.3** | **3.1 %** | 95.0 | 3.0 % |
| Long term payables | **10.7** | **0.4 %** | 11.7 | 0.4 % |
| Homburg Capital Securities A | **3.3** | **0.1 %** | 3.9 | 0.1 |
| Due to DIM shareholders | **2.1** | **0.1 %** | 3.0 | 0.1 % |
| Non-construction demand loans | **72.3** | **2.4 %** | 74.3 | 2.4 % |
| Notes payable | **3.0** | **0.1 %** | 3.0 | 0.1 % |
| | **$ 2,679.2** | **88.9 %** | $ 2,832.6 | 90.3 % |
| Shareholders' equity | **337.3** | **11.2 %** | 301.6 | 9.6 % |
| | **$ 3,016.5** | **100.0 %** | $ 3,134.2 | 100.0 % |

*Long Term Debt*
Mortgages payable on income producing properties decreased by $67.0 million during Q1 2010. New borrowings and debt assumptions amounted to $67.3 million while $25.1 million was applied to the mortgage debt as required under normal principal payments, dispositions and refinancing. The remaining $109.2 million primarily relates to the impact of changes in foreign exchange rates on Euro and US dollar denominated debt.

Mortgage bonds payable decreased by $9.5 million during Q1 2010, primarily as a result of 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. Included within the consolidated balance sheet is a liability of $20.6 million (December 31, 2009 - $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. Due to the change in the value of the Euro compared to the Canadian dollar, the non-asset backed bonds decreased by $68.3 million in Q1 2010.

The junior subordinated notes require interest only payments until maturity in 2036. The notes, which consist of EUR €25.0 million and USD $20.0 million, have a fixed interest rate until 2016 and variable thereafter until maturity. The Company has a redemption option effective in 2011 until maturity, and 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 also a net worth ratio, as calculated using the Company's IFRS financial information. The junior subordinated notes decreased by $3.9 million in Q1 2010 due to a change in the Euro and US dollar exchange rates compared to the Canadian dollar.

*Construction Financing*
At March 31, 2010, the Company had $94.3 million in construction financing (December 31, 2009 - $95.0 million) relating to development projects outlined earlier.

*Non-construction demand loans*
Non-construction demand loans decreased to $72.3 million at March 31, 2010 compared to $74.3 million at December 31, 2009.

*Shareholders' Equity*
Shareholders' equity increased from $301.6 million at December 31, 2009 to $337.3 million at March 31, 2010. The Company successfully raised $4.8 million (equity component), net of deferred transaction costs and taxes, through its Homburg Capital Securities A issued in Q1 2010. Net earnings for the three months ended March 31, 2010 amounted to $13.5 million; and accumulated other comprehensive loss decreased by $18.1 million due to changes in foreign currency rates.

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 accumulated other comprehensive income (loss) within shareholders' equity. At March 31, 2010, the accumulated income amount was $4.9 million; a decrease of $18.2 million from the accumulated loss amount of $13.3 million as 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 minimum loan to value ratios,interest coverage ratios, and/or reserve account balance requirements. Breach of any of these covenants could result in the related debt being required to be repaid before its scheduled maturity date. Should that happen, the Company may be required to sell properties at unfavourable prices to satisfy the debt repayment, and the 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 three months ended March 31, 2010, Homburg Invest had total interest coverage from continuing operations of 1.08:1 (March 31, 2009 - 1.24:1) (calculated as total revenue less unrealized fair value gains, foreign exchange gains, sales of properties developed for resale, property operating expenses, cost of property sales 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 on or around 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:

| *(In Millions)* | Payments Due by Period | | | | | |
|---|---|---|---|---|---|---|
| **Contractual Obligations** | **2010** | **2011** | **2012** | **2013** | **2014** | **Later** |
| Operating leases (i) | $ 5.2 | $ 14.4 | $ 14.4 | $ 14.7 | $ 14.7 | $ 194.6 |
| Mortgages: Normal principal installments (i) | 27.6 | 29.6 | 32.3 | 26.2 | 25.7 | |
| Interest (i) | 92.1 | 87.0 | 79.3 | 90.2 | 52.9 | |
| Principal maturities (ii) | 42.7 | 178.8 | 28.1 | 197.9 | 90.0 | 810.7 |
| Bonds and junior subordinated notes: | | | | | | |
| Interest (i) | 49.6 | 44.9 | 36.7 | 29.7 | 14.6 | |
| Principal maturities (iii) | 24.7 | 109.6 | 85.6 | 288.0 | 110.0 | |
| Junior subordinated notes (viii) | | | | | | |
| Non construction demand loans (iv) | 72.3 | | | | | |
| Construction financing (v) | 94.3 | | | | | |
| Construction purchase obligations (v) | 1.3 | | | | | |
| Other current and long term payables (vi) | 5.4 | | 10.7 | | | |
| Working capital deficit (vii) | 48.5 | | | | | |
| | **463.7** | **464.3** | **287.1** | **646.7** | **307.9** | **1,005.3** |
| Mortgage principals: covenant violations (ix) | 408.6 | | | | | |
| | **$ 872.3** | **$ 464.3** | **$ 287.1** | **$ 646.7** | **$ 307.9** | **$ 1,005.3** |

The Company's derivative instrument liability of $26.6 million 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 $27.6 million; interest on mortgages and mortgage bonds of $92.1 million; interest on corporate non asset backed bonds and junior subordinated notes of $49.6 million; capital spending requirements on the income property portfolio, expected to approximate $8.0 million; and operating lease commitments of $5.2 million. Sources of finance towards these obligations include: cash on hand of $25.7 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; 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 $72.3 million 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 $348.9 million 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 $94.3 million 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 $1.3 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.

(iv) The working capital deficit of $48.5 million consists of trade receivables ($33.2 million), related party receivables ($2.3 million) and notes receivable ($1.6 million), less trade payables ($71.0 million), income taxes payable ($11.6 million) and notes payable ($3.0 million), 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 $54.7 million, were in default of the interest coverage and net worth ratio 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 $408.6 million 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 $140.7 million 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 $17.1 million, after an impairment charge of $157.4 million 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 $140.7 million and the limited amount of recourse the lender is able to recover.

Also included is a loan of $180.5 million 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 $49.7 is ordinarily due in 2014 and $37.6 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.

*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 $2,213.9 million in fixed rate debt and $468.3 million in floating rate debt (before deferred financing charges and the currency guarantee payable) including $166.6 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 €159.9 million ($218.7 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 Baltic States during the three months ended March 31, 2010, the impact on the consolidated statement of earnings was a loss of $5.0 million (March 31, 2009 - loss of $8.7 million). The Company discloses the weighted average interest rate of maturing long term debt in Note 6 of the 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 $3.3 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 $17.9 million (December 31, 2009 - $20.1 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 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 €75.0 million ($102.9 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 self-sustaining operations and Euro-denominated corporate non-asset backed bonds and junior subordinated notes. At March 31, 2010, EUR €234.3 ($321.4) (December 31, 2009 - €234.3 ($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 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 a decrease (increase) in earnings after income taxes, excluding un-hedged debt, of $337 thousand and a foreign exchange gain or loss on the un-hedged Euro denominated corporate non-asset backed bonds of $9.8 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 $54 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 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.

*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 $531.1 million at March 31, 2010 (December 31, 2009 - $584.0 million). 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) | Cost | **$ 9.3** | Note (a) | $ 9.3 | Note (a) |
| **Held for Trading** | | | | | |
| Long term investments: others (b) | Fair value (L1) | **$ 10.8** | **$ 10.8** | $ 6.3 | $ 6.3 |
| Long term investments: HEEF B.V. (b) | Fair value (L3) | **7.8** | **7.8** | 8.6 | 8.6 |
| Cash and cash equivalents (c) | Fair value (L1) | **25.7** | **25.7** | 32.6 | 32.6 |
| Currency guarantee receivable (payable) (c) | Fair value (L2) | **(20.6)** | **(20.6)** | (5.0) | (5.0) |
| Derivative instrument liability (c) | Fair value (L2) | **(26.6)** | **(26.6)** | (24.0) | (24.0) |
| | | **$ (2.9)** | **$ (2.9)** | $ 18.5 | $ 18.5 |
| **Loans and Receivables** | | | | | |
| Restricted cash (d) | Amortized cost | **$ 17.8** | **$ 17.8** | $ 23.2 | $ 23.2 |
| Receivables and other (d) | Amortized cost | **81.7** | **81.7** | 93.0 | 93.0 |
| | | **$ 99.5** | **$ 99.5** | $ 116.2 | $ 116.2 |
| **Other Financial Liabilities** | | | | | |
| Accounts payable and other (d) | Amortized cost | **$ 80.1** | **$ 80.1** | $ 109.2 | $ 109.2 |
| Mortgages (e) | Amortized cost | **1,877.6** | **2,109.4** | 1,944.7 | 2,003.7 |
| Mortgage bonds (e) | Amortized cost | **165.2** | **169.1** | 190.2 | 207.9 |
| Corporate non-asset backed bonds (e) | Amortized cost | **398.0** | **390.9** | 466.3 | 462.1 |
| Junior subordinated notes (e) | Amortized cost | **54.7** | **80.7** | 58.6 | 88.1 |
| Deferred financing charges (e) | Amortized cost | **(22.6)** | | (23.1) | |
| Construction financing (d) | Amortized cost | **94.3** | **94.3** | 95.0 | 95.0 |
| | | **$ 2,647.3** | **$ 2,924.5** | $ 2,840.9 | $ 2,966.0 |

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 $0.4 million resulting from the change in fair values of investments was recorded against net loss during the period (2009 - loss of $3.2 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 $5.0 million for the period (2009 - loss of $8.7 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, 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.

**TRANSACTION WITH RELATED PARTIES**

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:

| | **March 31 2010** *(thousands)* | March 31 2009 *(thousands)* |
|---|---|---|
| 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 payable is $5.9 million (Accounts payable - December 31, 2009 - $198 thousand) payable 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 $53 thousand (March 31, 2009 - $53 thousand) were purchased from a corporation of which one of the Company's directors is affiliated.

f) Also included in trade receivables is a demand note payable plus accrued interest in the amount of EUR €2.4 million ($3.3 million) (Accounts payable - December 31, 2009 - EUR €2.4 million ($3.6 million) ) 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 thousand ($343 thousand) (Accounts payable - December 31, 2009 - USD $1.3 million ($1.4 million)) payable to a company commonly controlled by the Chairman and Chief Executive Officer, which bears an interest rate of 6.00% per annum.

h) Included in accounts receivable is a demand note receivable plus accrued interest in the amount of EUR €NIL (December 31, 2009 - EUR €6.8 million ($10.2 million)) 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 €7.4 million ($10.1 million) (December 31, 2009 €7.5 million ($11.3 million)) 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 €19.8 ($27.1) million of 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;
(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.

**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 May14, 2010, and it is expected that the IPO will close on or around 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. 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 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.

**CRITICAL ACCOUNTING ESTIMATES**

*Cost Recoveries*
As a real estate company, Homburg Invest Inc. for the most part is able to match its costs and revenues on a cash basis with accruals being made at each quarter and year end to ensure that the costs recorded match the revenue streams of the properties. As most of the costs incurred on the commercial operations are cost recoveries from the tenants, the accounting systems of the Company are set up to provide the appropriate matching. Accounting estimates are made in such areas as property tax accruals and insurance accruals which are readily determinable based on historical costs or current changes in the marketplace. There are no cost estimates which are not reasonably determinable and therefore the Company is able to realistically report its accounting estimates.

*Depreciation*
The Company utilizes the straight line method of calculating depreciation. In order to arrive at the appropriate estimated remaining useful lives and residual values to be used, the Company consulted with outside experts familiar with the Company's real estate portfolio. A significant increase or decrease in the annual depreciation charge resulting from a future change in the estimates would affect net earnings and earnings per share. Actual future results from the operation and eventual disposition of properties may prove these estimates inaccurate.

*Impairment of Real Estate*
One of the most significant areas requiring the use of estimates is with respect to the assessment of impairment of investment and development properties. Such assessments require estimates of the future cash flows to be generated over an estimated ownership period, the amount to be realized upon sale of the asset, an assessment of the Company's ability to refinance related debts, and the current fair value of assets that are determined to be impaired. Actual results could differ significantly from these estimates.

*Allowance for Doubtful Accounts*
The outstanding receivables are reviewed and evaluated on a monthly basis. The allowance for doubtful accounts is adjusted based on this review. These estimates result from the application of judgment and therefore are subject to uncertainty. The Company monitors these estimates on a continual basis.

**CHANGES 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.

The Canadian Accounting Standards Board of the CICA confirmed that the adoption of IFRS would be effective for the interim and annual periods beginning on or after January 1, 2011. IFRS will replace Canada's current GAAP. Comparative IFRS information for the previous fiscal year will also have to be reported. The Company has obtained approval from the Canadian securities regulators for exemptive relief to allow the Company to early adopt IFRS. The Company has decided to continue to file both Canadian GAAP and IFRS for the period ending March 31, 2010. The Company's financial statements prepared under IFRS (as well as Canadian GAAP) can be obtained via the SEDAR website www.sedar.com.

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.

## 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

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate disclosure controls and procedures and internal controls over financial reporting (as defined in the Canadian Securities Administrators National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management has evaluated whether there were changes to internal control over financial reporting for the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through the evaluation.

## OTHER REQUIREMENTS

(a) Additional information relating to Homburg Invest, including its Annual Information Form (AIF) is on the Company's website at www.homburginvest.com and at SEDAR at www.sedar.com.

(b) The Company continues to prepare its results under International Financial Reporting Standards ("IFRS") as well as under Canadian GAAP 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 March 31, 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, 17,094,490 Class A Subordinate Voting Shares and 3,148,538 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 five new entities owned or initially controlled by the Company. Three of the five new 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 listed on a stock exchange 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 five new entities.

*Homburg Canada REIT*
As the initial step in the reorganization, HII announced that it will move immediately to create the Homburg Canada Real Estate Investment Trust ("Homburg Canada REIT") to hold all of the Company's Canadian income producing real estate properties. On May 17, 2010 , the Company announced that Homburg Canada REIT has filed and obtained receipts for a final prospectus with the securities regulatory authorities of all provinces and territories in Canada in respect of its initial public offering of units of the REIT. Homburg Invest Inc initially will retain an approximate 45% interest in the REIT, and will generate approximately $105 million in cash and approximately $153 million in units of the REIT at the projected May 25, 2010 closing. With approximately $1 billion in initial assets, Homburg Canada REIT will be among the larger publicly traded REIT's in Canada, with a national and diversified asset base. Homburg Canada REIT will have 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 will initially have 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, 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 will create 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.

*Western Europe*
A newly incorporated entity will be created to hold all German and Dutch assets of the Company, as well as any new assets that may be acquired in Western Europe. At the appropriate time, the new subsidiary will be taken public 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 an early 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 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. The Company considers it is 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" | "Signed" |
|---|---|
| R. Homburg, Phzn., D. Comm.<br>Chairman and CEO | James F. Miles, CA<br>Vice President Finance and CFO |