INTERIM QUARTERLY REPORT

For the quarter ended June 30, 2008

Financial highlights **($ thousands except per unit and percentage amounts)**	Six months ended June 30	
	2008	2007
OPERATING RESULTS		
Net (loss) income	**10,241**	(9,869)
Per unit	**0.731**	(0.715)
Normalized income	**8,248**	8,637
Per unit	**0.588**	0.626
Spread income	**10,570**	11,794
Spread percentage	**3.20%**	3.56%
Distributions per unit	**0.540**	0.540
Mortgage originations	**67,254**	59,033
Trailing four quarter origination cost %	**9.2%**	9.3%
Trailing four quarter administration expense %	**0.71%**	0.81%
BALANCE SHEET HIGHLIGHTS		
Total assets	**974,304**	740,162
Mortgage principal plus accrued interest	**767,178**	654,715
Commercial paper	—	93,645
Medium term debt	**801,365**	335,342
Subordinated debt	**60,418**	20,240
Securitization trust debt	—	185,787
PORTFOLIO QUALITY		
Appraised value of underlying properties	**2,138,881**	1,832,427
Average loan to value	**35.9%**	35.8%
Non accrual mortgage value	**818**	192
Portfolio reserves	**251**	305
UNIT INFORMATION		
Unit price – close	**7.80**	13.00
Market capitalization	**108,646**	179,959

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Home Equity Income Trust ("HOMEQ" or the "Trust") from time to time makes written and verbal forward-looking statements about business objectives, operations, performance, and financial condition, including, in particular, the forecast of cash distributions and the likelihood of HOMEQ's success in developing and expanding its business. These may be included in the Annual Reports, quarterly reports, regulatory filings, reports to unitholders, press releases, Trust presentations and other communications. These forward-looking statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of HOMEQ. Actual results may differ materially from those expressed or implied by such forward-looking statements. HOMEQ does not undertake to update any forward-looking statement, whether written or verbal, that may be made from time to time.

TO OUR UNITHOLDERS:

We are pleased to present the unaudited quarterly financial results for Home Equity Income Trust (the "Trust") for the quarter ended June 30, 2008.

Among the highlights in Q2 2008 compared to Q2 2007 were:

- Originations grew by 17% to a quarterly record of $39 million;
- The mortgage portfolio grew by 17% to $767 million;
- Normalized income per unit decreased 8% to $0.299;

Current results continue the Trust's recent trend of strong business expansion. During the quarter, mortgage originations of $39 million achieved an all time record high, 17% over Q2 2007, and trailing four quarter originations grew to $136 million in comparison to $115 million during the period ended Q2 2007. The aggregate of new mortgage originations and accrued interest is significantly outpacing repayments, resulting in acceleration in the rate of growth of the mortgage portfolio. During the trailing four quarters ended June 30, 2008 the portfolio grew 17% or $112 million to $767 million.

We are experiencing increasing demand for our product from a growing demographic group. Our product continues to gain acceptance and recognition and the range of product options is expanding. For our customers, a CHIP Home Income Plan is the best alternative for meeting their financial needs..

We believe that the competence and experience of our sales and marketing teams is a significant competitive advantage in our unique business. While our clients share the desire to stay in their homes and experience a comfortable retirement, they come from a broad cross-section of society and are both diverse and disparate. Through research and experience we have created appropriate marketing strategies and have also determined the characteristics, skills and experience required in high performance sales professionals. Our recruiting and training regimens are successfully attracting, developing, retaining and motivating top sales talent.

We continue to expand and develop our network of referral partners which now encompass all the major Canadian banks, and also includes foreign and regional banks, wealth management companies and mortgage brokers. The business relationships with such a broad and high level array of Canadian businesses is testament to the invaluable service we provide to both our referral partners and our common clients. During the quarter the Trust entered into an agreement with Multi-Prêts, Quebec's leading mortgage broker. The new partnership with Multi-Prêts will further the Trust's reach to seniors in Quebec through the mortgage broker's well established branch network. The expansion of the Trust's referral network comes on the heels of the expansion of our sales and relationship management team, as well as establishment of a new regional office in Montreal.

As a result of conservative underwriting policies, our portfolio currently has an average loan-to-value of 36%, and less than 5% of the portfolio has a loan-to-value of over 70%, which would reduce the impact of a drop in residential real estate, should that occur. The real estate securing our mortgages is diversified by property type, location and province.

As has been well publicised, difficult conditions in the capital markets have persisted since August 2007 resulting in a systemic reduction in market liquidity and a corresponding increase in debt costs. In order to ensure immediate availability of funds to finance new originations during this period of volatility, the Trust has increased its cash holdings to higher than historical levels. The increased level of cash, while important from a risk management perspective, is having a negative impact on normalized income as the interest rate earned on the investment of the cash balances is less than the cost of the debt.

While it is not possible to predict the duration and extent to which current market conditions will continue, management has taken steps to offset the ongoing impact of these circumstances by actively managing its administration expenses. In the quarter, administration expenses were 0.59% of the average mortgage balance compared to 0.84% in Q2 2007. The Trust has also increased the interest rate charged for new mortgages and has changed the interest rate reset methodology. Beginning with new applications received

after mid June, a customer's mortgage rate for all interest terms will be based on the Trust's cost of borrowing rather than a fixed mark-up over the Government of Canada Treasury Bill rate. These changes, however, will take some time to be fully reflected in the Trust's results as the Trust's current portfolio of mortgages have interest rates that reset at a fixed spread over Government of Canada rates.

We believe we are well positioned to continue our prior success. Our customer segment is growing, our profit margins are attractive and robust, we have a strong and well secured portfolio and our sales force is highly trained, equipped and motivated. Under these circumstances, we will continue to pay attention to growing the business while managing the business risks identified in the Trust's Management Discussion and Analysis and Annual Information Form.

Sincerely,

Pierre Lebel
Chairman, Board of Trustees

Steven K. Ranson
President & Chief Executive Officer

August 5, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements for the period ending June 30, 2008 included herein and the MD&A and audited annual consolidated financial statements and notes for the year ending December 31, 2007. These are available on SEDAR at www.sedar.com. This MD&A has been prepared based on information available as at August 5, 2008. Unless otherwise indicated, all amounts are stated in Canadian dollars and have been primarily derived from the Trust's annual or interim consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Home Equity Income Trust's (HOMEQ or the Trust) Audit Committee reviewed this document, and prior to its release, the Trust's Board of Trustees approved this document, on the Audit Committee's recommendation.

CORPORATE OVERVIEW

The objective of Home Equity Income Trust is to generate stable, monthly cash distributions to unitholders by investing in reverse mortgages originated by its wholly owned subsidiary, Canadian Home Income Plan Corporation ("CHIP").

HOMEQ is publicly traded on the Toronto Stock Exchange under the symbol HEQ.UN and has various subsidiaries as outlined below:

- CHIP originates reverse mortgages through its advertising and referral network.
- CHIP Mortgage Trust ("CMT") finances the reverse mortgages originated by CHIP by issuing short-term and medium-term debt. Senior debt is rated 'R1-high' and 'AAA' and subordinated debt is rated 'BBB' by DBRS Limited ("DBRS").
- Securitization Partnerships hold portfolios of reverse mortgages originated by CHIP prior to August 2002. These mortgages were originally funded by term debt issued by the special purpose trust and are now funded by CMT.
- Home Equity Mortgage Corporation ("Home Corp.") provides mortgage administration services on the reverse mortgage portfolios.

The discussion of the Trust's operations in the MD&A and financial statements consolidates the activities of the Trust's subsidiaries.

FINANCIAL RESULTS

Non-GAAP Measures

HOMEQ uses a number of financial measures to assess its performance. Some measures are calculated in accordance with GAAP, such as total revenue and operating margin. Other measures such as distributable cash, normalized income, spread income and spread percentage are non-GAAP measures. These non-GAAP measures do not have standardized meanings under GAAP and may not be comparable to similar measures used by other trusts and companies. The Trust believes that the non-GAAP items provide the reader with additional understanding of how management views the Trust's performance.

Financial Overview

The table below provides a summary of the past nine quarters of operations.

	2006			2007				2008	
($ thousands, except per unit amounts)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total revenue	10,126	11,317	12,287	12,224	12,996	13,999	15,339	15,028	15,216
Operating margin	4,054	4,551	4,931	4,713	5,199	5,687	5,026	4,988	4,881
Income before undernoted items	1,534	1,949	2,273	2,077	2,256	2,732	2,041	1,923	2,277
Per unit	0.112	0.142	0.166	0.151	0.163	0.197	0.147	0.138	0.162
Less:									
Future income tax expense (recovery)	44	27	(157)	(5)	5,780	1,073	145	3,184	(1,282)
Income tax (recovery) expense	—	(333)	—	—	—	(70)	21	—	2
Unrealized (gain) loss on derivative instruments	—	—	—	959	7,468	(3,423)	(4,427)	(14,306)	6,360
Net income (loss)	1,490	2,255	2,430	1,123	(10,992)	5,152	6,302	13,045	(2,803)
Per unit	0.109	0.165	0.177	0.082	(0.795)	0.371	0.453	0.933	(0.199)

Total revenue for Q2 2008 of $15.2 million was $2.2 million or 17.1% higher than 2007 due to the 12.2% increase in interest earned on the mortgage portfolio, which was 17.2% higher than 2007, and the $606,776 increase in investment interest income as the Trust carried higher cash balances to ensure immediate availability of funds to finance new originations. Despite the increase in total revenue, the operating margin decreased by $317,799 or 6.1% mainly due to the higher interest expense on the debt funding the mortgage portfolio. The Trust's spread percentage earned was 3.09% in Q2 2008, compared to 3.56% in Q2 2007, as the impact of volatility in the capital markets resulted in lower yield on the mortgages and higher cost of funds.

The Trust's marketing and overhead expenses were $338,195 or 11.5% lower than Q2 2007. Combined with the change in gross margin, net income before undernoted items increased $20,396, 0.9% over Q2 2007 to $2.3 million. On a per unit basis net income before undernoted items was $0.162 per unit a 0.8% decrease over Q2 2007 due to the 1.7% increase in units. The various elements impacting net income before undernoted items are discussed later in the MD&A.

Under accounting standards introduced in 2007, derivatives are valued at fair market value with changes in fair value recognized in the current period's statement of operations. The Trust's derivative portfolio is substantially weighted to receive fixed rates. Therefore the fair market value of the derivatives will move in an opposite direction than changes in prevailing interest rates. As interest rates decrease, the mark to market of the Trust's derivative portfolio increases. As rates rise, the mark to market will decrease. During Q2 2008, interest rates increased resulting in a $6.4 million unrealized loss on the derivative instruments.

The Trust's derivatives are generally neither held for resale nor traded. For derivatives that are not subject to hedge accounting, HOMEQ believes that there is an asymmetry in the recognition methods of derivatives at fair market value, and assets and liabilities at amortized cost which has resulted in net income volatility not indicative of the business. As both derivatives and medium term debt are normally held to maturity, any unrealized gains or losses are timing differences and will be zero at maturity.

The Trust has also recorded a future income tax non-cash recovery of $1.3 million to earnings in respect of the temporary differences between the financial reporting and tax basis of the derivatives that are expected to reverse after 2010. The charge will have no impact on the Trust's cash flows or distributions to unitholders.

Portfolio Growth

The Trust intends to grow distributable cash and normalized income by profitably increasing the size of its mortgage portfolio. The mortgage portfolio at the end of Q2 2008 was $767.2 million, an increase of $112.5 million or 17.2% over Q2 2007. The following table shows the growth in the mortgage portfolio on a quarterly basis for the past nine quarters.

	2006			2007				2008	
($ Millions)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Opening mortgage balance (1)	551.0	567.7	593.2	611.9	632.1	654.6	678.3	707.5	737.4
Originations	27.6	30.8	24.8	25.6	33.4	34.4	33.9	28.2	39.0
Accrued interest	10.9	11.9	12.8	13.0	13.6	14.3	15.0	15.2	15.2
Repayments of principal	(13.0)	(13.3)	(13.2)	(12.1)	(16.4)	(17.4)	(13.2)	(9.3)	(18.4)
Repayments of accrued interest	(8.8)	(3.9)	(5.7)	(6.3)	(8.1)	(7.6)	(6.5)	(4.2)	(6.0)
Ending mortgage balance (1)	567.7	593.2	611.9	632.1	654.6	678.3	707.5	737.4	767.2
# of origination transactions (2)	331	347	319	297	377	380	373	313	400
Loan to value of originations	28%	31%	31%	30%	30%	30%	32%	31%	32%
Total repayments as % of opening balance	4.0%	3.0%	3.2%	3.0%	3.9%	3.8%	2.9%	1.9%	3.3%
Trailing 4 quarters:									
Originations	95.5	102.0	104.6	108.8	114.6	118.2	127.3	129.9	135.5
# of origination transactions (2)	1,184	1,236	1,261	1,294	1,340	1,373	1,427	1,443	1,466
Average value ($000's)	80.7	82.5	83.0	84.1	85.5	86.1	89.2	90.0	92.4
Total repayments	(78.4)	(70.8)	(71.4)	(76.3)	(79.0)	(86.8)	(87.6)	(82.7)	(82.6)

(1) Excluding unamortized purchase price premiums, origination fees and commissions, net of portfolio reserves
(2) # of transactions includes new clients and additional borrowing from existing clients

During Q2 2008, the Trust continued its trend of increased originations driven by a growing customer base, improved brand recognition and an expanded product offering. Originations grew by 16.8% to $39.0 million, an all time record high. Trailing four quarter originations at June 30, 2008 of $135.5 million were 18.2% higher than trailing four quarter originations at June 30, 2007.

The number of origination transactions in Q2 2008 increased 6.1% to 400, and 9.4% to 1,466 for the trailing four quarters. The average value per transaction on a trailing four quarters basis increased 8.1% to $92,400 from Q2 2007. Originations were proportionally distributed by source, region, age group and property type. The sales force's improved selling techniques, the enhanced marketing positioning and positive public relations continue to succeed in educating potential customers of the benefits of a CHIP Home Income Plan and its applicability to their particular needs and circumstances.

Interest accrued in Q2 2008 of $15.2 million was 12.2% higher than Q2 2007 due to the 17.2% higher mortgage portfolio, offset by the 34 basis point drop in yield.

Total repayments of principal and interest as a percentage of the opening mortgage balance were within the range of historical experience. Short-term fluctuations in the level of originations and repayments will have an impact on the total portfolio balance and the amount of distributable cash in the future.

Portfolio Quality

The loan-to-value ratio measures the outstanding mortgage balance as a percentage of the appraised value of the home. A lower loan-to-value ratio represents a more conservative investment as there is a higher probability that the proceeds realized on the disposition of the home will be more than sufficient to pay out the outstanding mortgage balance on maturity. Once a reverse mortgage has been originated, typically its loan-to-value ratio increases over time as the interest accrues. Offsetting the accrual of interest, increasing property values are a factor in a lower loan-to-value ratio. Canadian property values have appreciated approximately 5.25% annually

over the past 20 years based on data obtained from the Canadian Real Estate Association. Each property in the Trust's mortgage portfolio is reappraised at least every five years. The loan-to-value ratio of the $39.0 million of new mortgages originated in Q2 2008 was 32%, similar to 2007. For the entire mortgage portfolio, the most recently appraised value of the underlying properties was approximately $2.1 billion, for a loan-to-value ratio of approximately 36% at the end of Q2 2008, comparable to Q2 2007.

The Trust continually monitors its underwriting policies and procedures, paying close attention to real estate trends and forecasts in all major Canadian markets. In particular, during the underwriting process:

- Every property is appraised by a certified appraiser with particular attention paid to the property type, location and days on market of each comparative property.
- The initial appraised value is subsequently discounted, typically by between 7.5% and 50%.
- A rate of future appreciation of up to 1.5% per annum is assumed, in comparison with the Canadian 20 year average of approximately 5.25%.
- Each mortgage originated is limited in maximum dollar amount and loan-to-value in accordance with internal guidelines.

Over the past several years, the property appreciation rates used have been lowered despite the attractive rates achieved. This has served to maintain the low loan-to-value which would reduce the impact of a drop in residential real estate should that occur. Less than 5% of the portfolio has a loan-to-value of over 70% and 8.5% of the portfolio has a loan-to-value of over 60%. In addition, the real estate securing the mortgages is well diversified by property type, location and province.

HOMEQ's policy is to cease accruing interest income from any mortgage where the loan to value exceeds 83%. To ensure that these loans are reported as accurately as possible, each mortgage with a loan to value in excess of 80% is reappraised at least once per year. At June 30, 2008, four loans had a loan to value greater than 83% having a balance of $750,795, within the total portfolio of $767.2 million. The appraised value of the property securing the mortgages is $886,500.

In addition, a provision exists to compensate for possible future losses on mortgages whose loan-to-value ratios, while currently below 83%, are higher than that predicted at the current date. HOMEQ has evaluated its portfolio, and based on current conditions, has determined its portfolio reserves to be $250,964 at June 30, 2008, $54,090 or 17.7% lower than June 30, 2007.

During 2008, the profile of the mortgage portfolio has remained substantially consistent with that reflected in the 2007 annual report as it relates to geographic, customer age and loan-to-value distribution.

Spread

HOMEQ's operating margin is primarily derived from the spread between the interest earned on the mortgage portfolio, and the interest paid on the 'AAA' and investment grade debt used to fund the portfolio. For Q2 2008, aggregate spread income and investment interest of $5.8 million was $296,730 or 4.9% lower than Q2 2007, and the spread percentage in Q2 2008 decreased to 3.09% from 3.56% in Q2 2007. The positive impact on spread from the 17.2% increase in the mortgage portfolio value has been largely offset by the negative impact of the higher cost of funds on the Trust's debt.

Interest income earned on the mortgage portfolio in Q2 2008 was $15.2 million, an increase of $1.7 million or 12.2% over Q2 2007. The increase results mainly from the 16.9% growth in the average size of the mortgage portfolio, offset by the lower yield earned. The average yield earned on the mortgage portfolio of 8.11% was 34 basis points lower than Q2 2007 due to the lower rates on Government of Canada Treasury Bills which the Trust's mortgage rates are based on.

The Trust's debt portfolio increased at a faster rate than the portfolio of mortgages because of the Trust`s decision to increase its cash holdings. By raising funds in advance of its cash requirements, the Trust has reduced the exposure to short term refinancing risk. The Trust had $121.0 million of cash at June 30, 2008 which will be used to fund new mortgage originations. Net of the cash holdings, the Trust's debt increased 12.6% over Q2 2007.

Interest expense on the debt portfolio, was $10.1 million, an increase of $2.6 million or 34.1% over Q2 2007 due to the higher average debt balance and the 13 basis point increase in the average interest rate on the debt to 5.02%. Net of interest income earned on the higher cash holdings, the Trust's interest expense increased 26.3%.

The increase in the Trust's cost of funds reflects the challenging conditions in the capital markets commencing in August 2007 which resulted in a reduction in market liquidity and increased borrowing costs. More specifically, the spread, on a swapped basis, above the corresponding Bankers' Acceptance rate of the $165.0 million tranche of medium term notes issued in Q2 2008 was approximately 150 basis points higher than the average cost of senior debt outstanding at that time. Inclusive of the $165.0 million issued in Q2, 2008, the average cost of senior debt was 90 basis points above the corresponding Banker's Acceptance.

Since August 2007, the difference between the rate on Government of Canada Treasury Bills, on which most of the mortgage rates have historically been based, and the rate on Bankers' Acceptances, on which debt and hedging instruments are based, has also risen to levels higher than historical norms. This situation continues and has contributed to the reduction of spread income and spread percentage.

Interest rate risk resulting from timing differences between the interest reset dates on the mortgages and interest reset dates on the Trust's debt is managed through the use of derivative instruments such as interest rate swaps and forward rate agreements. Derivative instruments are entered into with Schedule 1 Canadian chartered banks to reduce counterparty risk. The objective of HOMEQ's hedging practices is to maintain a relatively stable spread between interest earned on the mortgages and interest paid on the highly rated debt used to fund them.

Due to the increased cost of funds and the unusual relationship between the Government of Canada Treasury Bill rates and the Bankers' Acceptances rates, the increase in the average cost of funds and the decrease in the average mortgage yield, spread percentage in Q2 2008 was 3.09%, 47 basis points lower than in Q2 2007. While the difference between the rates of the Government of Canada Treasury Bonds and Bankers' Acceptances has stabilized, it is not possible to predict whether an improvement is imminent.

Management has taken steps since August 2007, to offset the ongoing impact on profit margins of higher borrowing costs by raising the interest rate charged for new mortgages. In addition, in Q2 2008 the pricing methodology was changed to reflect a posted rate derived from the Trust's average cost of borrowing as opposed to a mark-up over the Government of Canada Treasury Bill rate as has previously been the case. This methodology will enable the Trust in the future to change the rates on all mortgages in the portfolio to offset systemic changes in borrowing costs. These changes, however, will take some time to be fully reflected in the Trust's results as mortgage rates on the existing portfolio will continue to reset in accordance with the previous methodology.

Spread income and spread percentage for the prior nine quarters are shown below.

	2006			2007				2008	
($ thousands)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Mortgage interest income (1)	10,893	11,933	12,869	12,994	13,559	14,345	15,040	15,199	15,214
Average mortgage balance (2)	558,561	581,115	603,576	620,740	643,532	666,433	693,790	721,296	752,014
Average mortgage yield – annualized (%)	7.82%	8.15%	8.46%	8.49%	8.45%	8.54%	8.60%	8.46%	8.11%
Interest expense	5,821	6,515	7,077	7,244	7,515	8,062	10,047	9,768	10,075
Average debt balance (3)	533,813	556,951	578,520	595,736	616,437	651,936	738,094	755,397	804,337
Cost of funds	4.37%	4.64%	4.86%	4.93%	4.89%	4.92%	5.39%	5.19%	5.02%
Spread income ($)	5,072	5,418	5,792	5,750	6,044	6,283	4,993	5,431	5,139
Spread (%)	3.45%	3.51%	3.60%	3.56%	3.56%	3.62%	3.21%	3.27%	3.09%
Investment interest	93	121	155	103	72	225	1,096	707	678

(1) Excluding early repayment fees and amortization of purchase price premiums and commissions
(2) Excluding unamortized purchase price premiums, origination fees and commissions
(3) Excluding debt issue costs and cash held for repayment of Securitization Trust debt

Mortgage Origination Cost

HOMEQ's objective is to maintain mortgage origination costs, which are deferred and amortized in the calculation of net income and normalized income, to no more than 10% of the value of mortgages originated, and to focus on improving sales and marketing efficiencies in order to reduce this percentage over time.

In Q2 2008, the Trust originated $39.0 million of mortgages with origination costs of 7.7%. Total origination costs of $3.0 million in Q2 2008 increased by $181,960 or 6.5% over Q2 2007 in comparison to the 16.8% increase in mortgage originations. On a trailing four quarters, the origination costs are 9.2%, similar to the trailing four quarters at Q2 2007.

The following table provides the details of the calculation for the past nine quarters. The consistent trailing four-quarter origination cost percentage during this period reflects the realization of operational efficiencies resulting from, amongst others, improved selling techniques and enhanced marketing positioning.

	2006			2007				2008	
($ Thousands)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Mortgage originations	27,598	30,784	24,857	25,644	33,388	34,442	33,794	28,235	39,019
Origination expenses									
Commissions	803	973	950	877	964	951	1,669	1,153	1,278
Direct origination expenses									
Origination salaries and benefits	157	159	159	175	185	172	196	198	195
Marketing	903	940	832	808	958	970	1,020	1,059	865
	1,060	1,099	991	983	1,143	1,142	1,216	1,257	1,060
Origination overhead expenses									
Salaries and benefits	930	934	1,086	1,023	1,156	1,136	1,271	1,055	1,041
Office	250	259	266	249	246	255	263	299	261
Subtotal	1,180	1,193	1,352	1,272	1,402	1,391	1,534	1,354	1,302
50% inclusion	590	597	676	636	701	696	767	677	651
Total origination cost	2,453	2,669	2,617	2,496	2,808	2,789	3,652	3,087	2,989
Origination cost (%)									
Current quarter	8.9%	8.7%	10.5%	9.7%	8.4%	8.1%	10.8%	10.9%	7.7%
Trailing four quarter	9.9%	9.7%	9.7%	9.5%	9.3%	9.1%	9.2%	9.5%	9.2%

Commissions of $1.3 million increased $313,378 or 32.5% over Q2 2007. The average commission rate has increased slightly due to the costs of the new sales staff which are paid a fixed sum during their start-up period without originating a usual number of mortgages. The Trust expanded its sales force in Q4 2007 by adding business development managers in markets previously serviced over the phone. In addition, the Trust has accrued a portion of potential annual incentive earnings.

Marketing expenses in Q2 2008 of $0.9 million were 9.7% lower than Q2 2007, based on efficiencies and timing of marketing campaigns. During the quarter, the Trust reduced its origination overhead expenses by $100,247 or 7.2% over Q2 2007 by focussing on cost control. Offsetting total origination costs, HOMEQ collects a flat fee per mortgage from clients to cover the legal and other costs of completing the transaction. For Q2 2008 the Trust recognized $234,204 of revenue, $59,899 higher than Q2 2007 reflecting higher mortgage originations in the quarter.

Mortgage Administration Expense

Cost effective administration of its mortgages is an important objective of HOMEQ and an important determinant of normalized income, accordingly management has taken steps to offset the impact of increased cost of funds by actively managing its administrative costs. In Q2 2008, the Trust's administration costs of $1.1 million were $228,524 or 17.0% lower than Q2 2007 in comparison with growth in the average mortgage portfolio of $108.5 million or 16.9%. As a percentage of the average mortgage portfolio, mortgage administration expenses were 0.59% for Q2 2008, a decrease from 0.84% for Q2 2007.

On a quarterly basis, mortgage administration expenses may fluctuate slightly, however, operational efficiencies and economies of scale are reducing administrative expenses as a percentage of the average mortgage portfolio. The following table provides the details of the calculation for the past nine quarters.

	2006			2007				2008	
($ thousands)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	$	$	$	$	$	$	$	$	$
Average mortgage balance	558,561	581,115	603,576	620,740	643,532	666,433	693,790	721,296	752,014
Administration expenses									
Mortgage servicing and administration	94	91	120	92	95	78	71	73	65
Origination overhead expenses	590	597	676	636	701	696	767	677	651
Professional services	304	365	356	397	443	449	258	414	264
Amortization of capital assets	70	66	61	61	64	65	67	77	81
Other	62	38	55	97	77	80	106	161	93
Less:									
Mortgage administration fees	(39)	(36)	(32)	(26)	(35)	(45)	(39)	(21)	(37)
Total administration expenses	1,081	1,121	1,236	1,257	1,345	1,323	1,230	1,381	1,117
Administration expense %									
Annualized	0.77%	0.77%	0.82%	0.81%	0.84%	0.79%	0.71%	0.75%	0.59%
Trailing four quarters	0.84%	0.82%	0.81%	0.79%	0.81%	0.81%	0.79%	0.77%	0.71%

INCOME TAXES

HOMEQ qualifies as a mutual fund trust under the Income Tax Act (Canada). As a mutual fund trust the Trust's taxable income is distributed to the unitholders via the monthly distributions. In 2007, Bill C-52 was passed into law which significantly modifies the income tax rules applicable to publicly traded trusts and partnerships. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These new tax rules will be delayed to 2011, provided the Trust experiences only "normal growth" and no "undue expansion" before then. If these limits are exceeded, the Trust may become immediately subject to income tax under the new tax rules.

Future income taxes are accounted for under the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws

that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

In Q2 2008, the Trust's future income tax liabilities decreased by $1.3 million mainly due to the change in temporary differences expected to reverse after 2010. The Trust has estimated its future income taxes based on its best estimates of results of operations and tax deductible amounts and cash distributions in the future assuming no material change to the Trust's current organizational structure. As currently interpreted, Canadian GAAP does not permit the Trust's estimate of future income taxes to incorporate any assumptions related to a change in organizational structure until such structures are given legal effect.

The Trust's estimate of its future income taxes will vary as do the Trust's assumptions pertaining to the factors described above, and such variations may be material.

Until 2011, the new legislation does not affect the Trust's cash flows from operations or the Trust's financial condition.

CASH FLOW AND LIQUIDITY

HOMEQ finances its portfolio of mortgages with senior debt, consisting of medium term notes, subordinated debt, and to the extent necessary to maintain the rating of the debt, trust units.

DBRS has issued the following ratings on the Trust's debt: AAA on senior medium term debt and BBB on subordinated debt. As a result of these superior ratings, HOMEQ has historically had access to the capital markets to finance new mortgages on cost-effective terms. Pursuant to the terms of its indenture and with the consent of the rating agency rating its debt, HOMEQ is permitted to operate with a maximum senior debt-to-mortgage ratio of 95% when its senior rated debt consists only of medium term notes. Including senior and subordinated debt, it is permitted to operate with a maximum total debt-to-mortgage ratio of 98%. HOMEQ will also maintain minimum cash on hand equivalent to at least 2% of the CMT portfolio value. At June 30, 2008, the senior debt-to-mortgage ratio was 87.6% and the total debt-to-mortgage ratio was 95.3%.

Whereas net accrual of interest on mortgages (accrual of interest on mortgages net of repayments of accrued interest) is deemed an operating activity in accordance with GAAP, it results in growth in the mortgage portfolio, equivalent to new originations, and is effectively an investing activity. The Trust is thus permitted to finance up to 98% of the growth in its mortgage portfolio (net accrual of interest plus originations net of mortgage principal repayments) with debt.

As discussed earlier in the MD&A, the Trust's portfolio of reverse mortgages has a loan to value of 36% and is secured by residential real estate. As a result, the Trust can reasonably expect to recover the full recorded value of each mortgage. The Trust's wholly owned subsidiary, CHIP, has been in business for more than 20 years, and has built a portfolio of over 6,900 reverse mortgages diversified by location, property type, date of origination and age of borrower. As supported by prior experience, on average approximately 3% of the mortgage portfolio is repaid each quarter, providing a predictable source of cash flow.

Historically HOMEQ has used cash flows from operating activities to fund the Trust's operations and distributions, and the excess of those cash flows coupled with borrowings under its debt programs have been used to fund growth in the mortgage portfolio. Due to the current capital market conditions the Trust is carrying substantially higher cash balances than in the past to provide a ready source of funds for new originations. To maintain its leverage within the permitted limits described above as the mortgage portfolio grows, the Trust may be required to issue additional units or subordinated debt which may be difficult or expensive in the current market environment.

Debt

HOMEQ issues medium term notes utilizing a short-form base shelf filed with provincial securities commissions on November 23, 2007. This prospectus replaced its initial debt prospectus filed in 2005. The prospectus permits the Trust to offer and issue medium term notes up to a total price of $750.0 million over a 25-month period.

Total principal amount of outstanding debt at June 30, 2008 of $851.4 million was $220.2 million or 34.9% higher than June 30, 2007. Starting in the fourth quarter of 2007, the Trust issued debt in advance of cash requirements due to the liquidity issues in the capital markets.

On May 15, 2008, the Trust issued $165 million of three-year senior medium-term notes, the proceeds of which were used to retire approximately $70 million of outstanding short term debt, including commercial paper and bank liquidity line borrowings which, under current capital market conditions, the Trust has decided to stop using as a source of funding. The balance of the proceeds, together with existing cash balances and mortgage repayments will be used to finance new originations of reverse mortgages.

The Trust had $121.0 million of cash as at June 30, 2008 thus reducing its exposure to short term refinancing risk during a period of particularly uncertain times in the capital markets.

Assuming mortgage repayments continue at average historical levels, the Trust will have sufficient cash to fund new originations until mid 2009. In the interim the Trust continues to explore other cost effective sources of long and short term funding. Concurrent with repayment of the last maturity of commercial paper on May 22, 2008, the Trust terminated its liquidity facility in order to reduce the associated costs. The Trust may return to the commercial paper market in the future if conditions improve

HOMEQ's borrowing program is actively managed. The Trust attempts to mitigate interest rate risk and refinancing risk by issuing highly rated debt, by using a syndicate of investment dealers to market the debt to a broad range of institutional investors and by staggering the maturities of its debt obligations and assets.

A summary of the principal of debt maturities at June 30, 2008 is presented in the following table.

($ thousands)	Less than 1 year	More than 1 year and 2 years or less	More than 2 years and 5 years or less	More than 5 years	June 30, 2008 Total	December 31, 2007 Total
Commercial Paper	—	—	—	—	—	76,788
Medium-Term Debt	—	150,000	641,431	—	791,431	626,753
Subordinated Debt	—	—	40,000	20,000	60,000	60,000
Total	—	150,000	681,431	20,000	851,431	763,541

Equity

Periodically, as required, the Trust may issue additional units to manage its leverage as the mortgage portfolio grows. New equity capital was being raised each month through the Trust's Distribution Reinvestment Plan. The distribution reinvestment plan had a participation rate of approximately 13.1% in Q2 2008, which resulted in the issue of 58,522 units for $503,796. On July 16, 2008, the Trust announced that it has suspended the distribution reinvestment plan.

The Trust has two long-term incentive plans; a Restricted Unit Plan (RUP) for management and a Deferred Unit Plan (DUP) for Trustees. A unit granted through the RUP entitles the holder to receive, on the vesting date, a Trust unit plus the amount of cash distributions that would have been paid on the unit if it had been issued on the date of grant. Subject to the achievement of performance conditions, if any, restricted units vest equally over three years and the total cost of the grant is recognized over the vesting period.

The DUP allows the Trustees to defer a portion of their compensation and receive the equivalent amount in units of the Trust. On retiring from the Board, a Trustee will receive all deferred units accumulated in the plan. The Trust intends to settle the restricted and deferred units in voting units of the Trust upon vesting and retirement respectively. Until such time, restricted and deferred units do not trade on the TSX, have no voting rights and cannot be sold or liquidated early.

The table below summarizes the Trust's unit activity for the period ended June 30, 2008.

	Voting	Management Restricted Unit Plan	Trustees Deferred Unit Plan	Total number of units
Balance, December 31, 2007	13,805,137	61,980	65,930	13,933,047
Restricted units redeemed	9,384	(9,384)	—	—
Restricted unit grants, net	—	27,100	—	27,100
Deferred units earned	—	—	7,039	7,039
Issued under distribution reinvestment plan	114,417	—	—	114,417
Balance, June 30, 2008	13,928,938	79,696	72,969	14,081,603

DISTRIBUTABLE CASH AND DISTRIBUTIONS

Cash available for distribution and portfolio growth

The Trust has amended its reconciliation of its GAAP financial statements to Distributable Cash to comply with NP 41-201 Income Trusts and Other Indirect Offerings (issued by the Canadian Securities Administrators on July 6, 2007). Distributable cash is a non-GAAP measure, and should not be used as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. It may differ from similar calculations reported by other entities and should not be compared.

An intricacy of the Trust is the deferred nature of its income streams. The Trust earns and accrues interest on a monthly basis, yet interest income is not received in cash until mortgages are repaid. Whereas net accrual of interest on mortgages (accrual of interest on mortgages net of repayments of accrued interest) is deemed an operating activity in accordance with GAAP, it results in growth in the mortgage portfolio, equivalent to new originations, and is effectively an investing activity. Pursuant to the covenants in its indenture, the Trust is permitted to finance up to 98% of the growth in its mortgage portfolio (net accrual of interest plus originations net of mortgage principal repayments) with debt. In order to reflect the true cash generation of the Trust's operating activities, net accrual of interest on mortgages is added back in the calculation of distributable cash. Changes in non-cash working capital have also been excluded so as to remove the effects of timing differences in cash receipts and disbursements which generally reverse themselves but can vary significantly across quarters.

On an ongoing basis, distributable cash can be expected to increase in tandem with growth in operating performance as a result of a strengthening operating business. While the Trust's mortgages earn interest over a multi year period, under GAAP, only commissions are deferred and amortized over the period the mortgages are expected to earn interest. Other origination costs such as marketing, origination salaries and benefits and the share of overhead expenses applicable to new mortgage originations are expensed under GAAP in the period incurred. This has the effect of reducing net income, cash flow from operations and distributable cash in the period of origination, but benefiting the Trust in the longer term. During periods of growth, cash flow from operations is normally negatively affected.

The Trust's analysis of mortgage origination costs is presented earlier in the MDA. As noted there, mortgage origination costs are closely monitored and as percentage of originations, have been falling on a consistent basis due to efficiencies resulting from improved selling techniques and enhanced marketing positioning. This will continue to have a positive impact on future operating results.

The table below shows that in Q2 2008, distributable cash increased by 5.6% in comparison to Q2 2007. As outlined in the Mortgage Origination Cost section earlier in the MDA, the Trust spent $3.0 million to originate $39.0 million of new mortgages compared to $2.8 million to originate $33.4 million in Q2 2007. Of the origination costs incurred in the quarter, $1.7 million were expensed in the period compared to $1.8 million in Q2 2007. The Trust believes that origination expenditures made in the past are contributing to growth in operating performance and distributable cash and that current period expenditures will have the same result in the future.

The level of distributions declared is reviewed periodically to take into account the current and future prospective performance of the business and other items considered to be prudent. As per the table below, the trailing four quarter payout ratio has declined consistently during the period under review.

	2006			2007				2008	
($ thousands, except per unit amounts)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
DISTRIBUTABLE CASH									
Cash flows from operating activities	1,311	15	(4,138)	(2,875)	(1,335)	(978)	(2,099)	(6,058)	(4,722)
Add/(deduct)									
Changes in non-cash working capital	(340)	(4,650)	938	(234)	(353)	(1,431)	(2,836)	(1,327)	(445)
Net accrual of interest on mortgages	2,120	8,058	6,789	6,728	5,486	6,653	8,554	10,952	9,203
Capital expenditures	(22)	(2)	(6)	(35)	(63)	(33)	(77)	(110)	(90)
Distributable cash	3,069	3,421	3,583	3,584	3,735	4,211	3,542	3,457	3,946
Total distributions	3,600	3,628	3,675	3,714	3,700	3,709	3,721	3,769	3,739
Excess/(shortfall)	(531)	(207)	(92)	(130)	35	502	(179)	(312)	207
Distributable cash per unit	0.225	0.250	0.261	0.260	0.270	0.304	0.254	0.247	0.281
Distributions per unit	0.266	0.269	0.270	0.270	0.270	0.270	0.270	0.270	0.270
Average number of units outstanding (000's)	13,653	13,687	13,724	13,773	13,830	13,872	13,918	13,981	14,061
Payout ratio	117%	106%	103%	104%	99%	88%	105%	109%	95%
Trailing four quarter payout ratio	121%	121%	115%	107%	103%	98%	98%	100%	99%
FINANCING AND INVESTING ACTIVITIES									
Cash from financing activities									
New debt financing, net of issue costs and repayments	18,679	24,164	16,617	19,379	29,425	45,480	87,581	(7,214)	95,147
New equity issues, net of issue costs	394	393	409	464	442	461	467	490	504
Cash available for investing activities	19,073	24,557	17,026	19,843	29,867	45,941	88,048	(6,724)	95,651
Investing activities									
Net originations	(15,380)	(18,400)	(12,761)	(14,441)	(17,960)	(17,953)	(22,214)	(20,088)	(21,843)
Net accrual of mortgage interest	(2,120)	(8,058)	(6,789)	(6,728)	(5,486)	(6,653)	(8,554)	(10,952)	(9,203)
Total investing activities	(17,500)	(26,458)	(19,550)	(21,169)	(23,446)	(24,606)	(30,768)	(31,040)	(31,046)
Excess/(shortfall) distributable cash	(531)	(207)	(92)	(130)	35	502	(179)	(312)	207
Changes in non-cash working capital	340	4,650	(938)	234	353	1,431	2,836	1,327	445
Total	(191)	4,443	(1,030)	104	388	1,933	2,657	1,015	652
Net increase/(decrease) in cash and cash equivalents	1,382	2,542	(3,554)	(1,222)	6,809	23,268	59,937	(36,749)	65,257
Total debt-to-mortgage ratio	89.4%	90.3%	91.3%	92.6%	93.2%	94.3%	94.9%	95.0%	95.3%

Production capacity

Given the nature of its business, the Trust does not require significant investment in infrastructure, facilities or equipment. Limited capital investment is made on an ongoing basis to upgrade the information technology platform, to maintain the office environment and to provide the sales force with appropriate tools and equipment to carry out their functions. Within the foreseeable future capital expenditure is expected to continue on the basis experienced over the prior years.

The Trust's ability to grow its portfolio is dependant on its access to debt and equity capital markets. The Trust's strategies in this regard are discussed in the Cash Flow and Liquidity section of the MD&A, and associated risks are addressed in the 2007 Annual Financial Statements and Annual Information Form.

Normalized income

Normalized Income is a non-GAAP measure, and should not be used as a substitute for comparable metrics prepared in accordance with GAAP. The Trust's mortgages earn interest over a multi year period while the costs to originate them are generally expensed under GAAP in the period they were incurred. Accordingly, this has the effect of reducing both net income and distributable cash in the current period, but benefiting them in the long term. Additionally, net income of the Trust in a quarter is likely to vary with the level of marketing activity during that quarter. The calculation of normalized income is designed to attempt to match the revenue from the Trust's mortgage portfolio with the corresponding one-time origination expenses by amortizing the origination expenses over an average period that the mortgages earn interest. This metric provides a measure of the consistency of the Trust's operational performance and the profit capabilities from ongoing operations and is the primary benchmark used by management in the determination of distribution levels.

Normalized income in Q2 2008 amounted to $4.2 million or $0.2986 per unit, a 6.0% decrease of $269,993, or 7.5% per unit over Q2 2007. Distributions declared in the quarter were $3.8 million or $0.27 per unit, equivalent to 90.4% of normalized income per unit. The decrease in the quarter is mainly due to the compressed spread income earned on the portfolio offset by the reduced overhead costs incurred in the period.

The following table shows the normalized income for the past nine quarters.

($ thousands)	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
	$	$	$	$	$	$	$	$	$
Net income (loss)	1,490	2,255	2,430	1,123	(10,992)	5,152	6,302	13,045	(2,803)
Add/(deduct):									
Non-cash items									
Future income tax expense (recovery)	44	27	(157)	(5)	5,780	1,073	145	3,184	(1,282)
Unrealized (gains) losses on derivative instruments (1)	—	—	—	959	7,468	(3,423)	(4,427)	(14,306)	6,360
Amortization of purchase premiums and origination fees (2)	1,071	950	950	977	921	945	990	892	953
	2,605	3,232	3,223	3,054	3,177	3,747	3,010	2,815	3,228
Direct origination expenses (3)	1,060	1,099	991	983	1,143	1,142	1,216	1,257	1,060
Origination overhead expenses (4)	590	597	676	636	701	696	767	677	651
Less:									
Amortization of direct origination expenses and origination overhead expenses (5)	(399)	(433)	(468)	(503)	(554)	(599)	(648)	(699)	(741)
	1,251	1,263	1,199	1,116	1,290	1,239	1,335	1,235	970
Normalized Income	**3,856**	**4,495**	**4,422**	**4,170**	**4,467**	**4,986**	**4,345**	**4,050**	**4,198**
Average number of units outstanding	13,653	13,687	13,724	13,773	13,828	13,872	13,918	13,981	14,061
Normalized Income per unit									
Current quarter	0.2824	0.3284	0.3222	0.3028	0.3230	0.3595	0.3123	0.2897	0.2986

(1) Unrealized (gains) losses on derivative instruments are a non cash charge reflecting the change in fair value of derivatives.

(2) This expense, reflected in the Statement of Cash Flows, relates to fees previously paid in cash and capitalized by the Trust to a third party for the purchase of portfolios of reverse mortgages. The amortized expense is a non-cash expense and it is included in the calculation of Normalized Income in order to reflect profit generating capabilities from ongoing operations

(3) Direct origination expense relates to expenses paid in cash for mortgages originated in the current period. On the Statement of Operations it comprises “Origination salaries and benefits”, “Purchased services” and “Marketing”. In accordance with GAAP, these expenditure categories are expensed in the period incurred although the mortgages have an expected life of several years. For the Normalized Income calculation, this expense is added back and then amortized (see (5) below) over an average period that the mortgages earn interest.

(4) Origination overhead expenses relate to overheads incurred during the origination of mortgages. It includes 50% of “Salaries and benefits” and 50% of “Office expenses” as reported on the Statement of Operations. The 50% allocation is based on the Trust’s estimate of the allocation of these costs to origination activities. In accordance with GAAP, these expenditure categories are expensed in the period incurred although the mortgages have an expected life of several years. For the Normalized Income calculation, this expense is added back and then amortized (see (5) below) over an average period that the mortgages earn interest

(5) Amortization of direct origination expenses and origination overhead expenses is the amortization of the previous two items to recognize the expenditure over an average period that the mortgages originated earn interest. This period of amortization is consistent with that used to amortize commissions in accordance with GAAP as reflected in the notes to the financial statements

FINANCIAL INSTRUMENTS

In the normal course of business, HOMEQ enters into interest rate derivative contracts to hedge the portfolio’s interest rate risk. The Trust does not hold or use any derivative contracts for speculative trading purposes. The derivative contracts used are entered into with Schedule 1 Canadian chartered banks to reduce any counterparty risk associated with derivatives.

BUSINESS RISKS

The primary business risks identified by the Trust are outlined below and more fully on pages 25 though 27 in the MD&A of the Trust's 2007 Annual Report and its 2007 Annual Information Form.

Spread Risk

The Trust's operating margin is primarily derived from the spread between interest earned on the mortgage portfolio, and the interest paid on the debt used to fund the portfolio. Circumstances in the capital markets can result in an increase in the cost of debt used by the Trust to fund the portfolio. In addition, the difference between the Prime Rate and the rate on Government of Canada Treasury Bills, on which mortgage rates have historically been based, and the rate on Bankers' Acceptances, on which the Trust's debt and hedging instruments are based, can deviate from historical norms. Both of these situations can result in a reduction of spread income.

Leverage and Refinancing

The Trust, in its normal course of business, is projected to have significant debt service obligations under its medium term debt programs and other indebtedness. The degree to which the Trust is leveraged could have important consequences to the unitholders, including (i) the Trust's ability to obtain additional financing; (ii) increased cost incurred to obtain additional debt or replace maturing debt (iii) a substantial portion of the cash flow from reverse mortgages will be dedicated to the payment of principal and interest on its indebtedness; (iv) the risk that the cash flow from the Trust's reverse mortgages is not sufficient to repay any indebtedness on maturity, exposing the Trust to refinancing risk.

Access to Capital Markets

Periodically, as required, the Trust may issue additional units to manage its leverage as the mortgage portfolio grows. Changes in general market conditions, fluctuations in markets for equity securities and other factors beyond the control of the Trust may affect the Trust's ability to successfully issue additional units as and when required.

Property Risk

In underwriting new reverse mortgages, the Trust uses a proprietary lending model to predict the date of mortgage repayment based on the age and sex of the borrower. This information, along with information on the type of the property and its location, is used to determine the amount to be lent. One of the assumptions made at the time a reverse mortgage is underwritten concerns the rate of future price appreciation for the underlying property. A risk exists that the property might not appreciate in accordance with recent experience and the underwriting forecasts. Accordingly, the initial appraised value of every property is discounted, generally by between 5% and 30%, depending on the province, location, and property type. A rate of future appreciation of up to 1.5% per annum is currently assumed. According to data available from the Canadian Real Estate Association, over the past 20 years, the rate of appreciation for residential real estate in Canada has averaged approximately 5.25% per annum, or more than three times what is assumed in the underwriting.

CONTROLS AND PROCEDURES

During the most recent interim period, there have been no changes in the Trust's policies and procedures and other processes that comprise its internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting.

ACCOUNTING POLICIES AND ESTIMATES

Changes in Significant Accounting Policies

Capital Disclosures

Effective January 1, 2008 the CICA's new accounting standard, Section 1535, *Capital Disclosures*, was implemented, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position or the earnings of the Trust.

Financial Instruments

Effective January 1, 2008, the accounting and disclosure requirements of the CICA's two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation* were implemented. The new guidance did not have a material effect on the financial position or earnings of the Trust.

Hedge Accounting

On January 1, 2007 The Trust adopted the CICA Handbook Section 3865, Hedges. At the time of adoption of the new standards, the Trust did not designate its derivatives as hedges. During Q2 2008, the Trust entered into new derivatives which have been designated as hedges and is following hedge accounting. The Trust's fair value hedges principally consist of interest rate swaps that are used to protect against changes in fair value of fixed-rate medium term debt due to movements in market interest rates. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded as unrealized (gain) loss on derivative instruments in the consolidated statement of operations and unitholders' equity, along with adjustments to the carrying value of the financial instruments that are attributable to the hedged risk.

Critical Accounting Estimates

There have been no changes to the critical accounting estimates from those disclosed in the Trusts' Annual Report.

Future Accounting and Reporting Changes

International Financial Reporting Standards

In January 2006, the CICA's Accounting Standards Board (AcSB) formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards (IFRS) for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. Accordingly, HOMEQ will begin to assess the potential impact of converting to IFRS.

OUTLOOK

HOMEQ's goal is to continue to be Canada's leading provider of reverse mortgages. Market awareness of both HOMEQ and its product has increased, and sources of referral cover a widening array of financial institutions. In addition, HOMEQ is benefiting from a preference of seniors to remain in their homes as long as possible, and from the demographic trend of a rising seniors population.

Starting in the third quarter of 2007, volatility in the capital markets resulted in a decrease in availability and a resultant increase in the cost of both commercial paper and medium term notes and, as discussed in Spread, the difference between the rate on Government of Canada Treasury Bills and Bankers' Acceptances rose to levels higher than historical norms. In order to ensure immediate availability of funds to finance new originations during this period of volatility, the Trust has increased its cash holdings to higher than historical levels. The increased level of cash, while important from a risk management perspective, is having a negative impact on spread income because of the associated increase in interest expense.

As a result of the increased costs of capital, spread percentage in recent quarters has been lower than the historical range. It is not possible to predict the duration and extent to which current market conditions will continue. Management has taken steps to offset the ongoing impact of these circumstances by increasing the interest rate charged for new mortgages and changing the pricing methodology to reflect a posted rate derived from the Trust's average cost of borrowing as opposed to a mark-up over the Government of Canada Treasury Bill rate as has previously been the case. These changes, however, will take some time to be fully reflected in the Trust's results. Spread percentage for subsequent quarters will depend on the mix of terms chosen by clients and the yield spread between Treasury Bills and Bankers' Acceptances. In addition, the Trust is actively managing its overhead costs.

The Trust is reviewing various funding sources to ensure access to sufficient cost effective funds to finance anticipated portfolio growth. Provided the Trust continues to have access to new funds it expects to increase new mortgage originations by between 5% and 10% per annum. Ongoing attention will be focused on sustaining the business while managing the risks identified in the Trust's Management Discussion and Analysis and Annual Information Form.

The Trust has considered the new tax rules under Bill C-52 and expects to be taxable in 2011. HOMEQ anticipates that it will convert to a corporate entity by 2011 subject to the appropriate unitholder vote..

ADDITIONAL INFORMATION

Additional information regarding HOMEQ including the Trust's Annual Information Form is available on SEDAR at www.sedar.com.

August 5, 2008

INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As at June 30, 2008	As at December 31, 2007
	$	$
ASSETS		
CASH AND CASH EQUIVALENTS	**121,024,037**	92,516,283
MORTGAGES (Note 3 and 12)	**821,976,072**	762,427,629
PREPAID EXPENSES	**966,675**	1,022,744
FUTURE INCOME TAX ASSETS (Note 4)	**74,874**	126,275
PROPERTY AND EQUIPMENT, net of accumulated amortization	**790,946**	748,345
DERIVATIVE INSTRUMENTS (Note 11)	**10,362,574**	2,457,861
GOODWILL	**19,108,636**	19,108,636
	974,303,814	878,407,773
LIABILITIES AND UNITHOLDERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**1,495,062**	3,204,028
DISTRIBUTIONS PAYABLE TO UNITHOLDERS	**1,567,821**	1,518,595
FUTURE INCOME TAX LIABILITIES (Note 4)	**8,747,970**	6,897,626
COMMERCIAL PAPER (Note 5 and 12)	—	76,788,449
MEDIUM-TERM DEBT (Note 6, 11 and 12)	**801,365,118**	634,195,761
SUBORDINATED DEBT (Note 7 and 12)	**60,417,970**	60,440,107
DERIVATIVE INSTRUMENTS (Note 11)	**2,936,122**	1,451,267
UNITHOLDERS' EQUITY	**97,773,751**	93,911,940
	974,303,814	878,407,773

The accompanying notes are an integral part of these interim consolidated financial statements.

HOME EQUITY INCOME TRUST

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND UNITHOLDERS' EQUITY (UNAUDITED)

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	**2008**	2007
	$	$	**$**	$
REVENUES				
Mortgage interest (Note 3)	**14,267,333**	12,714,640	**28,406,225**	24,678,425
Mortgage closing fees, net of costs	**234,204**	174,305	**394,964**	305,161
Mortgage administration fees	**36,705**	35,225	**57,756**	61,455
Investment interest and other	**678,170**	71,394	**1,385,178**	174,596
	15,216,412	12,995,564	**30,244,123**	25,219,637
DIRECT COSTS				
Interest expense (Note 8)	**10,074,862**	7,515,229	**19,843,157**	14,759,318
Origination salaries and benefits	**195,512**	185,631	**393,122**	360,964
Mortgage servicing and administration	**64,934**	95,801	**138,145**	187,485
	10,335,308	7,796,661	**20,374,424**	15,307,767
OPERATING MARGIN	**4,881,104**	5,198,903	**9,869,699**	9,911,870
MARKETING	**864,843**	956,724	**1,923,621**	1,764,453
OVERHEAD EXPENSES				
Salaries and benefits	**1,041,193**	1,156,233	**2,096,148**	2,179,426
Professional services	**263,956**	442,874	**678,485**	840,137
Office expenses	**260,745**	245,952	**559,889**	495,312
Amortization of property and equipment	**80,655**	64,177	**157,625**	124,993
Other	**93,102**	76,729	**254,406**	173,973
	1,739,651	1,985,965	**3,746,553**	3,813,841
INCOME BEFORE UNDER NOTED ITEMS	**2,276,610**	2,256,214	**4,199,525**	4,333,576
Unrealized (gain) loss on derivative instruments	**6,360,211**	7,468,080	**(7,946,109)**	8,426,879
Current income taxes	**2,290**	—	**2,290**	—
Future income tax (recovery) expense (Note 4)	**(1,282,360)**	5,779,790	**1,901,745**	5,775,316
NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME	**(2,803,531)**	(10,991,656)	**10,241,599**	(9,868,619)
UNITHOLDERS' EQUITY, beginning of period	**103,778,897**	102,957,280	**93,911,940**	103,399,558
Net proceeds from issuance of Trust units (Note 9)	**594,179**	572,270	**1,178,378**	1,142,820
Distributions declared to unitholders	**(3,795,794)**	(3,737,058)	**(7,558,166)**	(7,456,689)
Transition adjustment on adoption of Financial instrument standards	—	—	—	1,583,766
UNITHOLDERS' EQUITY, end of period	**97,773,751**	88,800,836	**97,773,751**	88,800,836
AVERAGE NUMBER OF UNITS OUTSTANDING	**14,060,638**	13,828,319	**14,020,825**	13,800,648
NET INCOME (LOSS) PER TRUST UNIT (Basic and Diluted)	**(0.199)**	(0.795)	**0.731**	(0.715)

The accompanying notes are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	**2008**	2007
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income (loss)	**(2,803,531)**	(10,991,656)	**10,241,599**	(9,868,619)
Adjust for non-cash items				
Amortization				
Amortization of purchase price premiums and origination fees	**953,049**	920,951	**1,845,019**	1,898,161
Amortization of debt issue costs	**275,476**	185,702	**525,786**	371,164
Amortization of property and equipment	**80,655**	64,177	**157,625**	124,993
Amortization of deferred commissions	**361,697**	240,896	**692,527**	453,439
Compensation expense related to long-term incentive plans	**90,383**	130,278	**184,840**	236,477
Future income tax (recovery) expense	**(1,282,360)**	5,779,790	**1,901,745**	5,775,316
Unrealized loss (gain) on derivative instruments	**6,360,211**	7,468,080	**(7,946,109)**	8,426,879
	4,035,580	3,798,218	**7,603,032**	7,417,810
Changes in non-cash working capital				
Accrual of interest payable on debt	**284,806**	(592,859)	**3,424,865**	989,016
Other	**160,156**	945,751	**(1,652,897)**	(402,355)
	4,480,542	4,151,110	**9,375,000**	8,004,471
Accrual of interest on mortgages	**(15,214,504)**	(13,558,377)	**(30,413,976)**	(26,552,864)
Repayments of accrued interest	**6,011,672**	8,072,329	**10,258,591**	14,338,414
Net accrual of interest on mortgages	**(9,202,832)**	(5,486,048)	**(20,155,385)**	(12,214,450)
Cash used in operating activities	**(4,722,290)**	(1,334,938)	**(10,780,385)**	(4,209,979)
INVESTING ACTIVITIES				
Mortgages originated	**(39,018,735)**	(33,388,299)	**(67,253,589)**	(59,032,727)
Mortgage principal repayments	**18,453,242**	16,392,956	**27,753,440**	28,473,942
Commissions	**(1,277,396)**	(964,132)	**(2,430,455)**	(1,841,040)
Purchase of capital assets	**(90,121)**	(63,291)	**(200,226)**	(98,734)
Cash used in investing activities	**(21,933,010)**	(18,022,766)	**(42,130,830)**	(32,498,559)
FINANCING ACTIVITIES				
(Repayments) proceeds of commercial paper, net	**(68,991,235)**	25,938,258	**(76,074,732)**	49,510,754
Gross proceeds of medium-term debt	**165,000,000**	—	**165,000,000**	—
Repayment of medium-term debt	**(296,879)**	—	**(321,639)**	—
Capitalized debt issue costs	**(563,788)**	—	**(669,258)**	—
Decrease in Securitization trust debt	—	3,486,996	—	(706,404)
Distributions to unitholders	**(3,739,362)**	(3,699,633)	**(7,508,940)**	(7,413,270)
Proceeds from units issued under distribution reinvestment plan	**503,796**	441,992	**993,538**	906,343
Cash from financing activities	**91,912,532**	26,167,613	**81,418,969**	42,297,423
Net increase in cash and cash equivalents during the period	**65,257,232**	6,809,909	**28,507,754**	5,588,885
Cash and cash equivalents, beginning of period	**55,766,805**	2,502,983	**92,516,283**	3,724,007
Cash and cash equivalents, end of period	**121,024,037**	9,312,892	**121,024,037**	9,312,892
Supplemental cash flow information:				
Interest paid	**10,304,776**	7,899,239	**16,626,315**	13,364,867
Taxes paid	**2,290**	—	**2,290**	—

The accompanying notes are an integral part of these interim consolidated financial statements.

1. ORGANIZATION AND BASIS OF PRESENTATION

Home Equity Income Trust (the Trust) is an unincorporated open-end trust created on May 15, 2002 by a Declaration of Trust and governed by the laws of the Province of Ontario. The Trust invests in reverse mortgage portfolios and other permitted investments with the objective of providing stable distributions to unitholders while preserving capital.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read together with the Trust's audited annual consolidated financial statements and accompanying notes included in the Trust's Annual Report for the year ended December 31, 2007. The preparation of these unaudited interim financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements, except as described below.

2. CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008 the CICA's new accounting standard, Section 1535, *Capital Disclosures*, was implemented, which requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new guidance did not have an effect on the financial position or the earnings of the Trust. See Note 10.

Financial Instruments

Effective January 1, 2008, the accounting and disclosure requirements of the CICA's two new accounting standards, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation* were implemented. The new guidance did not have a material effect on the financial position or earnings of the Trust.

The Trust is exposed to a variety of financial risks in the normal course of business. The financial risk management objectives are described in the Management Discussion and Analysis. The new disclosures required under Section 3862 are included in note 12.

3. MORTGAGES

The following table shows the details of the mortgage balance on the consolidated balance sheet:

	As at	
	June 30, 2008	December 31, 2007
	$	$
Mortgage principal plus accrued interest	**767,428,741**	707,773,208
Mortgage purchase price premiums, net of accumulated amortization	**38,554,089**	40,282,883
Mortgage origination fees, net of accumulated amortization	**2,653,796**	2,770,134
Deferred commissions, net of accumulated amortization	**13,590,410**	11,852,368
Less: portfolio reserves	**(250,964)**	(250,964)
	821,976,072	762,427,629

Mortgages with a loan-to-value of greater than 83% at June 30, 2008 totaled $750,795 (December 31, 2007 - $291,136) and the appraised value of the underlying properties was $886,500 (December 31, 2007 - $350,500).

3. MORTGAGES - (continued)

The following table shows the details of mortgage interest on the consolidated statement of operations and unitholders' equity:

	For the three month period ended June 30,		For the six month period ended June 30,	
	2008	2007	**2008**	2007
	$	$	**$**	$
Interest income	**15,214,504**	13,558,377	**30,413,976**	26,552,864
Early repayment fees	**367,575**	318,110	**529,795**	477,161
Less: Amortization of deferred commissions	**(361,697)**	(240,896)	**(692,527)**	(453,439)
Amortization of purchase price premiums and origination costs	**(953,049)**	(920,951)	**(1,845,019)**	(1,898,161)
	14,267,333	12,714,640	**28,406,225**	24,678,425

4. FUTURE INCOME TAXES

The tax effects of temporary differences of the Trust that give rise to the future income tax assets and liabilities are presented below:

Future Income Tax Assets	As at **June 30, 2008**	December 31, 2007
	$	$
Capital assets	**35,521**	28,352
Non-capital loss carry forwards	**39,353**	97,923
	74,874	126,275

The future income taxes of the non-capital losses carried forward represents the tax effect of the Trust's subsidiaries losses from prior years for which it is more likely than not that a future income tax asset will be realized, determined at statutory rates.

As at June 30, 2008, the Trust's subsidiaries had non-capital losses carried forward of $119,470. The non-capital losses expire as follows: 2010 - $55,452, 2014 – $41,746 and 2015 – $22,272.

Future Income Tax Liabilities	As at **June 30, 2008**	December 31, 2007
	$	$
Mortgages	**6,838,635**	6,838,635
Derivative instruments	**1,909,335**	58,991
	8,747,970	6,897,626

In June 2007 the Department of Finance enacted new legislation imposing additional income taxes upon publicly traded income trusts, including HOMEQ, effective January 1, 2011. Prior to June 2007, in accordance with CICA Handbook section 3465, the Trust estimated the future income tax on certain temporary differences between amounts recorded on its balance sheet for book and tax purposes at a nil effective tax rate. Under the new legislation, the Trust now estimates the effective tax rate on the reversal of these temporary differences in 2011 to be 29.5% and post 2011 to be 28.0%. Temporary differences reversing before 2011 will still give rise to nil future income taxes.

While the Trust believes it will be subject to additional tax under the new legislation, the estimated effective tax rate on temporary difference reversals after 2011 may change in future periods.

5. COMMERCIAL PAPER

On May 22, 2008, the Trust repaid all outstanding commercial paper. The Trust terminated its liquidity loan facility of $120,000,000 which previously backed its commercial paper program effective May 22, 2008.

6. MEDIUM-TERM DEBT

The following table summarizes the medium-term debt outstanding as at June 30, 2008.

Series	Expected final payment	Interest basis	Interest rate at June 30, 2008	**June 30, 2008**	Fair Market Value	December 31, 2007
				$	$	**$**
2007-1	Nov 1, 2009	Fixed rate	5.407%	**150,000,000**	150,008,250	150,000,000
2005-1	Nov 1, 2010	Fixed rate	4.296%	**110,000,000**	106,906,800	110,000,000
2007-3	May 2, 2011	Fixed rate	5.613%	**125,000,000**	123,803,750	125,000,000
2008-1	May 16, 2011	Fixed Rate	5.764%	**165,000,000**	164,024,850	—
2006-3	Aug 1, 2012	Fixed rate	4.542%	**115,000,000**	108,339,200	115,000,000
2007-2	Jan 15, 2013	Floating Rate (1)	3.243%	**21,431,189**	21,414,978	21,752,828
2006-1	Feb 1, 2013	Fixed rate	4.637%	**105,000,000**	98,266,350	105,000,000
				791,431,189	772,764,178	626,752,828
Interest payable				**14,115,372**		9,898,599
Debt issue costs, net of accumulated amortization				**(2,655,192)**		(2,455,666)
Adjustment in carrying value of hedged debt (see Note 11)				**(1,526,251)**		—
				801,365,118		634,195,761

(1) Rate is reset each May 1st and November 1st based on the six- month Government of Canada Treasury Bill rate plus 1.283%

The Trust has a best efforts obligation to refinance the series 2006-3, 2007-1 2007-3 and 2008-1 notes on the respective expected final payment dates. If a note remains outstanding after the expected final date the interest will become the one-month Bankers' Acceptance rate plus the following spreads calculated and payable monthly; 2006-3 – 1.25%, 2007-1 – 2.00%, 2007-3 – 3.00% and 2008-1 – 4.00%.

7. SUBORDINATED DEBT

The following table summarizes the subordinated debt outstanding as at June 30, 2008.

Series	Expected final payment	Interest basis	Interest rate at June 30, 2008	**June 30, 2008**	Fair market value	December 31, 2007
				$	$	**$**
2007-1B	Nov 1, 2012	Fixed rate	6.663%	**20,000,000**	19,465,700	20,000,000
2007-2B	Jan 15, 2013	Fixed rate	7.582%	**20,000,000**	21,317,400	20,000,000
2006-2B	Aug 1, 2013	Fixed rate	5.803%	**20,000,000**	18,560,500	20,000,000
				60,000,000	59,343,600	60,000,000
Interest payable				**826,783**		904,974
Debt issue costs, net of accumulated amortization				**(408,813)**		(464,867)
				60,417,970		60,440,107

The Trust has a best efforts obligation to refinance the series 2006-2B and 2007-1B notes on the respective expected final payment dates. If a note remains outstanding after the expected final date the interest will become the one-month Bankers' Acceptance rate plus the following spreads calculated and payable monthly; 2006-2B – 1.75%, 2007-1B – 3.50%.

The series 2007-2B note is repayable after the 2007-2 Medium Term Note is repaid in full.

8. INTEREST EXPENSE

The following table summarizes interest expense on the consolidated statement of operations and unitholders' equity:

	For the three month period ended June 30,		For the six month period ended June 30,	
	2008	2007	**2008**	2007
	$	$	**$**	$
Interest on commercial paper & liquidity line(2)	**394,853**	811,756	**1,154,435**	1,386,410
Interest on medium-term notes	**8,563,302**	3,676,362	**16,300,120**	7,321,300
Interest on subordinated debt	**815,749**	275,706	**1,784,510**	551,412
Interest on securitization trust debt(1)	—	2,511,666	—	5,040,796
Commercial paper expenses	**25,482**	54,037	**78,306**	88,236
Amortization of debt issue costs	**275,476**	185,702	**525,786**	371,164
	10,074,862	7,515,229	**19,843,157**	14,759,318

(1) Securitization trust debt of $140,000,000 matured and was repaid on November 15, 2007. Securitization trust debt of $45,565,209 was redeemed on December 17, 2007.

(2) On May 22, 2008, the Trust repaid all outstanding commercial paper.

9. UNITHOLDERS' EQUITY

An unlimited number of Trust units may be issued by the Trust pursuant to the Declaration of Trust. Each unit represents an equal, undivided beneficial interest in any distributions from the Trust and in the net assets of the Trust. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders.

	Number of units	Proceeds
Balance, December 31, 2007	13,933,047	$
Units issued under distribution reinvestment plan	55,895	489,742
Units earned and granted under the long-term incentive plans (1)	27,714	94,457
	83,609	584,199
Balance, March 31, 2008	14,016,656	
Units issued under distribution reinvestment plan	58,522	503,796
Units earned and granted under the long-term incentive plans (1)	6,425	90,383
	64,947	594,179
Balance, June 30, 2008	**14,081,603**	**1,178,378**

(1) Includes vested, non-vested and cancelled units.

The Trust has two long-term incentive plans; a Restricted Unit Plan (RUP) for management and a Deferred Unit Plan (DUP) for Trustees.

A unit granted through the RUP entitles the holder to receive, on the vesting date, a Trust unit plus the amount of cash distributions that would have been paid on the unit if it had been issued on the date of grant. The maximum number of units that may be issued under the RUP is 250,000. Subject to the achievement of performance conditions, if any, restricted units vest equally over three years and the total cost of the grant is recognized over the vesting period. As at June 30, 2008, 136,920 restricted units have been issued since the inception of the plan, 79,696 units remain within the plan of which 28,400 have vested.

9. UNITHOLDERS' EQUITY – (continued)

The DUP allows the Trustees to defer a portion of their compensation and receive the equivalent amount in units of the Trust. When the Trustee retires from the Board they will receive all deferred units accumulated in the plan. The maximum number of units that may be issued under the DUP is limited to 150,000. As at June 30, 2008, the Trustees have earned 72,969 units under the DUP.

For the period ending June 30, 2008, compensation expense under the long-term incentive plans was $184,840 (June 30, 2007 - $236,477).

The Trust intends to settle the restricted and deferred units in real units of the Trust upon vesting and retirement respectively. Until such time, these units do not trade on the TSX, have no voting rights and cannot be sold or liquidated early.

The Trust's optional distribution reinvestment plan (DRIP) allows eligible Canadian unitholders to elect to have their cash distributions from the Trust automatically reinvested in additional units. Unitholders who participate in the DRIP will receive a further bonus distribution of units equal in value to 4% of each distribution that was reinvested. The Trust suspended the DRIP on July 16, 2008.

10. CAPITAL MANAGEMENT

The main objectives in managing the Trust's capital resources are to have funds available to grow the mortgage portfolio and to be able to generate stable, monthly cash distributions to unitholders. The Trust's capital resources have consisted of cash, senior debt, consisting of medium term notes and commercial paper, access to credit facilities, subordinated debt, and issued trust units.

Historically HOMEQ has used cash flows from operating activities to fund the Trust's operations and distributions, and the excess of those cash flows coupled with borrowings under its debt programs have been used to fund growth in the mortgage portfolio. Due to the current capital market conditions the Trust is carrying substantially higher cash balances than in the past to provide a ready source of funds for new originations.

The Trust's borrowings are subject to debt-to-mortgage covenants under its indenture. The covenants are; a maximum senior debt-to-mortgage ratio of 93% when it has commercial paper outstanding, a maximum of 95% when its senior rated debt consists only of medium term notes and a maximum total debt-to-mortgage ratio of 98%. HOMEQ is also required to maintain minimum cash on hand equivalent to two percent of the CMT mortgage portfolio value. At June 30, 2008, the senior debt-to-mortgage ratio was 87.6%, the total debt-to-mortgage ratio was 95.3% and the Trust held more then the required amount of cash. The Trust closely monitors business performance to evaluate compliance with these covenants. In 2008, the Trust has focused on initiatives and strategies which, despite persistent difficult conditions in the capital markets, have maintained normal operations and growth. The exposure to short term refinancing risk has for the time being, been addressed by raising term debt well in advance of any cash requirements.

Equity capital, in the form of trust units, has been raised each month through the Trust's Distribution Reinvestment Plan. In addition, to manage its leverage as the mortgage portfolio grows, the Trust may issue additional units or subordinated debt in the future.

On May 22, 2008, the Trust repaid all outstanding commercial paper. The Trust terminated its liquidity loan facility of $120,000,000 which previously backed its commercial paper program effective May 22, 2008.

The total capital managed at June 30, 2008 was approximately $1.1 billion (December 31, 2007, $957.9 million)

11. DERIVATIVE INSTRUMENTS

In the normal course of business, the Trust enters into interest rate derivative contracts to manage the portfolio's interest rate risk. Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates or other financial measures.

Interest rate swaps are contracts in which two counterparties agree to exchange cash flows over a period of time based on rates applied to a specified notional principal amount. A typical interest rate swap would require one counterparty to pay interest based on a fixed rate and receive interest based on a variable market interest rate determined from time to time with both calculated on a specified notional principal amount. No exchange of principal amount takes place.

Forward rate agreements are contracts that effectively fix a future interest rate for a period of time. A typical forward rate agreement provides that at a pre-determined future date, a cash settlement will be made between counterparties based upon the difference between a contracted rate and a market rate to be determined in the future, calculated on a specified notional principal amount. No exchange of principal amount takes place.

Fair Values

Fair market values of the interest rate derivatives are determined using the period end market rates compared to the rates in the derivative contract. Changes in fair value resulting in unrealized gains or losses are recorded in the consolidated statement of operations and unitholders' equity.

Notional Amounts

The notional value of derivative financial instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional principal amounts do not represent the potential gain or loss associated with market risk and is not indicative of the credit risk associated with derivative financial instruments. The notional amounts are not recorded as assets or liabilities on the consolidated balance sheet.

The following table summarizes the fair values, notional principal and weighted average rates of the derivative instruments outstanding as at June 30, 2008. The floating rate for all instruments is based on the CDOR rate for terms ranging from one to twelve months.

	Weighted average rate		**Notional principal**		**Fair values**	
Interest rate contracts	**June 30, 2008**	December 31, 2007	**June 30, 2008**	December 31, 2007	**June 30, 2008**	December 31, 2007
Swaps			$	$	$	$
Pay floating	4.465%	4.529%	642,000,000	535,000,000	10,251,709	2,053,213
Pay fixed	3.641%	3.862%	43,000,000	78,000,000	86,915	343,361
			685,000,000	613,000,000	10,338,624	2,396,574
Forward Rate Agreements						
Pay floating	3.891%	4.275%	16,000,000	40,000,000	23,950	23,443
Pay fixed	—	4.460%	—	90,000,000	—	37,844
			16,000,000	130,000,000	23,950	61,287
ASSETS					**10,362,574**	2,457,861
Swaps						
Pay floating	3.494%	4.099%	190,000,000	130,000,000	1,677,054	939,545
Pay fixed	4.298%	4.550%	101,000,000	69,000,000	1,205,493	407,329
			291,000,000	199,000,000	2,882,547	1,346,874
Forward Rate Agreements						
Pay floating	2.890%	4.563%	50,000,000	245,000,000	53,575	70,605
Pay fixed	—	5.080%	—	20,000,000	—	33,788
			50,000,000	265,000,000	53,575	104,393
LIABILITIES					**2,936,122**	1,451,267

11. DERIVATIVE INSTRUMENTS (Continued)

Maturity Terms

The following table summarizes the maturity terms of derivative instruments outstanding as at June 30, 2008. Maturity dates range from November 2008 to August 2013.

	Remaining term to maturity					
Notional principal ($ thousands)	**Within 1 year**	**1 to 3 years**	**3 to 5 years**	**Over 5 years**	**June 30, 2008 Total**	December 31, 2007 Total
Swaps	36,000	581,000	342,000	17,000	976,000	812,000
Forward rate agreements	66,000	—	—	—	66,000	395,000

Hedge Accounting

On January 1, 2007 the Trust adopted the CICA Handbook Section 3865, *Hedges*. When the Trust applies hedge accounting, at the inception of a hedging relationship, the Trust documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. In order to be deemed effective, the hedging instrument and the hedged item must be highly and inversely correlated such that the changes in fair value of the hedging instrument will substantially offset the effects of the hedged exposure to the Trust throughout the term of the hedging relationship. If a hedge relationship becomes ineffective, it no longer qualifies for hedge accounting and any subsequent change in fair value of the hedging instrument is recognized in earnings.

Fair Value Hedges

The Trust's fair value hedges principally consist of interest rate swaps that are used to protect against changes in fair value of fixed-rate medium term debt due to movements in market interest rates. Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded as unrealized (gain) loss on derivative instruments in the consolidated statement of operations and unitholders' equity, along with adjustments to the carrying value of the financial instruments that are attributable to the hedged risk.

As discussed further in the paragraph below, the Trust elected under Section 3865 – *Hedges* to apply hedge accounting for three derivative transactions entered into during the period ended June 30, 2008.

Hedge Accounting Results

During the period ended June 30, 2008, the Trust entered into interest rates swaps, having a notional amount of $159 million; to hedge $159 million of the $165 million fixed rate medium-term debt issued during the period. The fair value of these swaps is negative $1,526,251 at June 30, 2008 and is recorded as derivative instruments liability on the balance sheet. The Trust has recorded $1,526,251 of change in fair value of the derivative to unrealized (gain) loss on derivative instruments in the consolidated statement of operations and unitholders' equity. The carrying value of fixed-rate medium term debt has been adjusted by the same amount with a corresponding credit to unrealized (gain) loss on derivative instruments in the consolidated statement of operations and unitholders equity. See Note 6.

The objective of these hedges is to protect against changes in the fair value of the fixed rate medium term debt due to changes in the underlying benchmark interest rate. The terms of the debt and the interest rate swaps match and the hedges are considered effective. Accordingly, there were no gains or losses arising from hedge ineffectiveness in the period ending June 30, 2008.

11. DERIVATIVE INSTRUMENTS (Continued)

Derivative –related risks

Market risk

Derivative instruments, in the absence of any compensating upfront cash payments, generally have no market value at inception. They obtain value, increase or decrease, as relevant interest rates, foreign exchange rates or credit prices change, such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and the same remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the forgoing factors is generally referred to as market risk. This market risk is mitigated as the Trust does not hold or use any derivative contracts for speculative trading purposes.

Credit risk

Credit risk on derivative financial instruments is the risk of a financial loss occurring as a result of a default of a counterparty on its obligation to the Trust. Credit risk is limited by dealing only with Schedule 1 Canadian Chartered banks as counterparties. The maximum derivative credit exposure to the Trust is the fair value of derivative contracts presented in the summary table above.

12. FINANCIAL INSTRUMENTS – FINANCIAL RISKS

The Trust is exposed to the following risks arising from financial instruments.

Credit Risk

Credit risk is the potential for financial loss if a borrower or counterparty in a transaction fails to meet its obligations in accordance with agreed terms. Credit risk on the Trust's Cash and Cash Equivalents is mitigated by maintaining cash balances at Schedule 1 Canadian Chartered banks. Credit risk on the mortgage loans is mitigated by following Board approved underwriting policies, not providing loans for more than 55% of the property value and by having a first charge on the underlying property securing the mortgage. Credit risk is mitigated further by the geographic diversity and the collateralization of the portfolio by mortgages with an appraised value of $2.1 billion.

The following tables show the composition of the mortgage portfolio by loan-to-value range and geographic distribution.

	Dollar Volume As At		**Percentage As At**	
Mortgage Portfolio – by Loan-to-Value	**June 30, 2008**	December 31, 2007	**June 30, 2008**	December 31, 2007
	$	$	**%**	%
Less than 30.0%	**159,612,401**	150,895,239	**20.8%**	21.3%
30.1% - 40.0%	**218,055,925**	202,198,370	**28.4%**	28.6%
40.1% - 50.0%	**202,407,297**	179,339,048	**26.3%**	25.3%
50.1% - 60.0%	**122,739,774**	113,650,191	**16.0%**	16.1%
60.1% - 70.0%	**53,369,283**	50,304,123	**7.0%**	7.1%
Greater than 70.1%	**11,244,061**	11,386,237	**1.5%**	1.6%
	767,428,741	707,773,208	**100.0%**	100.0%

	Dollar Volume As At		**Percentage As At**	
Mortgage Portfolio – by Province	**June 30, 2008**	December 31, 2007	**June 30, 2008**	December 31, 2007
	$	$	**%**	%
Ontario	**337,792,990**	322,744,475	**44.1%**	45.6%
British Columbia	**277,491,247**	249,060,292	**36.2%**	35.2%
Alberta	**87,044,064**	76,032,421	**11.3%**	10.7%
Quebec	**39,403,395**	36,564,009	**5.1%**	5.2%
Other	**25,697,045**	23,372,011	**3.3%**	3.3%
	767,428,741	707,773,208	**100.0%**	100.0%

12. FINANCIAL INSTRUMENTS – FINANCIAL RISKS – (Continued)

Liquidity Risk

Liquidity risk is the risk that the Trust will not be able to meet its obligations when they are due. The Trust mitigates these risks by issuing only highly rated debt, by using a syndicate of several dealers to issue debt, and by staggering the maturities of its debt obligations.

The following table summarizes the expected final payment dates of debt principal:

Debt principal ($ thousands)	Within 1 year	More than 1 year and 2 years or less	More than 2 years and 5 years or less	More than 5 years	June 30, 2008 Total	December 31, 2007 Total
Commercial Paper	—	—	—	—	—	76,788
Medium-Term Debt	—	**150,000**	**641,431**	—	**791,431**	626,753
Subordinated Debt	—	—	**40,000**	**20,000**	**60,000**	60,000
Total	—	**150,000**	**681,431**	**20,000**	**851,431**	763,541

Interest Rate Risk

The Trust's operating margin is primarily derived from the spread between interest earned on the mortgage portfolio, and the interest paid on the debt used to fund the portfolio. Mortgages have various interest rate reset terms, ranging from variable to five-year. The interest on the majority of the Trust's debt is fixed until maturity. The Trust uses derivative contracts to match the rate reset terms of the debt portfolio to that of the mortgage portfolio, to mitigate any fluctuations that changes to the underlying benchmark rates may have on its operating margin at the time of the mortgage resets.

Interest rates on the mortgage portfolio are based on the Government of Canada Treasury-bill and bond rates whereas interest rates on the debt and derivative instruments are based on the Bankers' Acceptances rates. Historically, changes in interest rates do not impact each benchmark rate equally which may result in a reduction in spread. The following sensitivity analysis shows the annualized impact of a 50 basis point change on each of the underlying benchmark rates individually on the current mortgage and debt portfolios respectively.

	Interest Income	Interest Expense
	$	$
50 basis point increase	3,837,113	4,257,157
50 basis point decrease	(3,837,113)	(4,257,157)

These sensitivities are hypothetical and should be used with caution.

13. FUTURE CHANGES IN ACCOUNTING POLICIES

Goodwill, Intangible Assets and Financial Statement Concepts

The CICA issued a new accounting standard, *Section 3064, Goodwill and Intangible Assets*, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. *Section 1000, Financial Statement Concepts*, was also amended to provide consistency with the new standard. These new standards are effective for the Trust beginning on January 1, 2009. The Trust is currently assessing the impact of these standards on its consolidated financial statements.

14. CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

15. SUBSEQUENT EVENT

Effective July 16, 2008, the Trust suspended its distribution reinvestment plan. (See Note 9).

Certification of Interim Filings

I, Steven K. Ranson, as President and Chief Executive Officer of Home Equity Income Trust, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Home Equity Income Trust, (the issuer) for the period ended June 30, 2008;

2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;

3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:

   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and

5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 5, 2008

President and Chief Executive Officer

Certification of Interim Filings

I, Gary Krikler, as Senior Vice President and Chief Financial Officer of Home Equity Income Trust, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of Home Equity Income Trust, (the issuer) for the period ended June 30, 2008;

2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;

3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the issuer, and we have:

   (a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared; and

   (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and

5. I have caused the issuer to disclose in the interim MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

August 5, 2008

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Senior Vice President and Chief Financial Officer

CORPORATE INFORMATION

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TRUST UNITS
The units of the Trust are listed on the Toronto Stock Exchange under the symbol HEQ.UN

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