



INTERIM QUARTERLY REPORT
For the quarter ended
September 30, 2008



Financial highlights (\$ thousands except per unit and percentage amounts)	Nine months ended September 30	
	2008	2007
OPERATING RESULTS		
Net (loss) income	13,758	(4,716)
Per unit	0.979	(0.341)
Normalized income	12,284	13,621
Per unit	0.875	0.985
Spread income	15,718	18,077
Spread percentage	3.13%	3.56%
Distributions per unit	0.81	0.81
Mortgage originations	105,068	93,475
Trailing four quarter origination cost %	9.4%	9.1%
Trailing four quarter administration expense %	0.67%	0.81%
BALANCE SHEET HIGHLIGHTS		
Total assets	977,645	786,559
Mortgage principal plus accrued interest	797,911	678,674
Commercial paper	—	143,182
Medium term debt	805,529	334,875
Subordinated debt	60,490	19,965
Securitization trust debt	—	184,192
PORTFOLIO QUALITY		
Appraised value of underlying properties	2,232,966	1,898,388
Average loan to value	35.8%	35.8%
Non accrual mortgage value	451	192
Portfolio reserves	251	305
UNIT INFORMATION		
Unit price – close	7.89	12.72
Market capitalization	110,094	176,614

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 September 30, 2008.

Among the highlights in Q3 2008 compared to Q3 2007 were:

- Originations grew by 10% to a quarterly record of \$38 million;
- The mortgage portfolio grew by 18% to \$798 million;
- Normalized income per unit decreased 21% to \$0.286;
- Monthly distribution per unit reduced from \$0.09 to \$0.06.

Financial and economic uncertainty continued both nationally and internationally during the quarter and difficult conditions in the capital markets persist. Under these circumstances, the Trust has displayed resilience and has continued to produce encouraging results.

During the quarter, mortgage originations of \$38 million grew 10% over Q3 2007, and trailing four quarter originations grew to \$139 million in comparison to \$118 million during the period ended Q3 2007. The aggregate of new mortgage originations and accrued interest is outpacing repayments, resulting in acceleration in the rate of growth of the mortgage portfolio. During the trailing four quarters ended September 30, 2008 the portfolio grew 18% or \$120 million to \$798 million.

As a result of conservative underwriting policies, our portfolio currently has an average loan-to-value of 36%, and less than 1% 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. Over the last several years we have refined our underwriting inputs to reduce risk in the event of future property depreciation, and are constantly assessing residential real estate trends across the country.

In order to ensure immediate availability of funds to finance new originations during this period of volatility, earlier in the year the Trust increased its cash holdings to higher than historical levels. The increased level of cash, while important from a risk management perspective, is having a near term 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. During Q3 2008, the Trust maintained significant cash holdings for the whole quarter and thus incurred the related negative impact for the entire period.

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, has deviated significantly from historical norms. Both of these situations have resulted in a reduction of spread percentage to 3.04%. In response, the Trust has increased the interest rate charged for new mortgages and has changed the interest rate reset methodology. These changes, however, will take some time to be fully reflected in the Trust's results until such time as a greater proportion of the Trust's portfolio is priced using the new methodology. In the interim, the Trust is actively managing its administration expenses. In the quarter, administration expenses were 0.63% of the average mortgage balance compared to 0.79% in Q3 2007.

The Trust's most recent revisions to underwriting assumptions will reduce the average mortgage amount for new clients by between 5% and 15%. In addition, ongoing financial and economic uncertainty might reduce consumer confidence among Canadian seniors making them less likely to consider a reverse mortgage. Despite the strong growth in originations experienced so far this year, the Trust expects that by the end of 2008, year over year origination growth will moderate to between 0% and 5%. In response to the possibility of lower originations in Q4, the Trust has taken steps to reduce costs by scaling back marketing and overhead expenditures and rationalizing its sales territories. As the current financial and economic situation is unprecedented, the Trust cannot predict the longer term impact on new originations.



As a result of current uncertainty in the capital markets we have decided to reduce the monthly distribution to reflect the approximate current level of taxable income. We believe that retaining capital is a sensible move to ensure the stability and predictability of the Trust's performance. Effective November 30th the monthly distribution will be changed from \$0.09 to \$0.06 per unit. .

It is our responsibility to consider the near and long term financial health of the Trust and to adopt measures that ensure the ongoing success of the business, recognizing that access to capital markets may remain difficult for the foreseeable future. Based on the prudent steps taken to date and our current levels of cash and cash equivalents, we expect to have sufficient capital through to the last quarter of 2009. We are well positioned to take advantage of the eventual stabilization of the financial markets and continue to profitably build our portfolio.

Sincerely,

A handwritten signature in black ink, appearing to read "Lebel".

Pierre Lebel
Chairman, Board of Trustees

A handwritten signature in black ink, appearing to read "Ranson".

Steven K. Ranson
President & Chief Executive Officer

November 11, 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 September 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 November 4, 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 ("TSX") under the symbol HEQ.UN and has various subsidiaries as outlined below:

- CHIP originates reverse mortgages through its advertising and referral network. CHIP also provides mortgage administration services on the reverse mortgage portfolios.
- 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.

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.

(\$ thousands, except per unit amounts)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total revenue	11,317	12,287	12,224	12,996	13,999	15,339	15,028	15,216	15,310
Operating margin	4,551	4,931	4,713	5,199	5,687	5,026	4,988	4,881	4,892
Income before undernoted items	1,949	2,273	2,077	2,256	2,732	2,041	1,923	2,277	1,908
Per unit	0.142	0.166	0.151	0.163	0.197	0.147	0.138	0.162	0.135
Less:									
Future income tax expense (recovery)	27	(157)	(5)	5,780	1,073	145	3,184	(1,282)	63
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	(1,671)
Net income (loss)	2,255	2,430	1,123	(10,992)	5,152	6,302	13,045	(2,803)	3,516
Per unit	0.165	0.177	0.082	(0.795)	0.371	0.453	0.933	(0.199)	0.249

Total revenue for Q3 2008 of \$15.3 million was \$1.3 million or 9.4% higher than 2007 due to the increase in interest earned on the mortgage portfolio, which was 17.6% higher than 2007, and the \$574,768 increase in investment interest income earned on cash balances that the Trust is carrying to ensure immediate availability of funds to finance new originations. Despite the increase in total revenue, the operating margin decreased by \$795,589 or 14.0% mainly due to the 26.0% higher interest expense on the debt funding the mortgage portfolio. In Q3, 2008 the Trust's spread percentage earned of 3.04% was similar to that of Q2, 2008 but lower than the 3.62% in Q3 2007, as the continued volatility in the capital markets has resulted in an increase in the cost of debt.

The Trust managed its marketing and overhead expenses to within a 1.0% increase over Q3 2007. Combined with the change in gross margin, net income before undernoted items decreased \$823,994, 30.2% over Q3 2007 to \$1.9 million. On a per unit basis net income before undernoted items was \$0.135 per unit a 31.5% decrease over Q3 2007. 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 Q3 2008, interest rates decreased resulting in a \$1.7 million unrealized gain 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 expense of \$0.1 million to earnings during Q3 2008 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 Q3 2008 was \$797.9 million, an increase of \$119.5 million or 17.6% over Q3 2007. The following table shows the growth in the mortgage portfolio on a quarterly basis for the past nine quarters.

(\$ millions)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Opening mortgage balance (1)	567.7	593.2	611.9	632.1	654.6	678.3	707.5	737.4	767.2
Originations	30.8	24.8	25.6	33.4	34.4	33.9	28.2	39.0	37.8
Accrued interest	11.9	12.8	13.0	13.6	14.3	15.0	15.2	15.2	15.3
Repayments of principal	(13.3)	(13.2)	(12.1)	(16.4)	(17.4)	(13.2)	(9.3)	(18.4)	(16.3)
Repayments of accrued interest	(3.9)	(5.7)	(6.3)	(8.1)	(7.6)	(6.5)	(4.2)	(6.0)	(6.1)
Ending mortgage balance (1)	593.2	611.9	632.1	654.6	678.3	707.5	737.4	767.2	797.9
# of origination transactions (2)	347	319	297	377	380	373	313	400	470
Loan to value of originations	31%	31%	30%	30%	30%	32%	31%	32%	30%
Total repayments as % of opening balance	3.0%	3.2%	3.0%	3.9%	3.8%	2.9%	1.9%	3.3%	2.9%
Trailing 4 quarters:									
Originations	102.0	104.6	108.8	114.6	118.2	127.3	129.9	135.5	138.9
# of origination transactions (2)	1,236	1,261	1,294	1,340	1,373	1,427	1,443	1,466	1,556
Average value (\$000's)	82.5	83.0	84.1	85.5	86.1	89.2	90.0	92.4	89.3
Total repayments	(70.8)	(71.4)	(76.3)	(79.0)	(86.8)	(87.6)	(82.7)	(82.6)	(80.0)

(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 Q3 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 to \$37.8 million, 9.8% higher than Q3 2007. Trailing four quarter originations at September 30, 2008 of \$138.9 million were 17.5% higher than trailing four quarter originations at September 30, 2007.

The number of origination transactions in Q3 2008 increased 23.7% to 470, and 13.3% to 1,556 for the trailing four quarters. The average value per transaction on a trailing four quarters basis increased 3.7% to \$89,300 from Q3 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 Q3 2008 of \$15.3 million was 6.7% higher than Q3 2007 due to the 17.6% higher mortgage portfolio, offset by the 77 basis point drop in yield as further discussed in the Spread section of the MD&A.

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. Each property in the Trust's mortgage portfolio is reappraised at least every five years. The loan-to-value ratio of the \$37.8 million of new mortgages originated in Q3 2008 was 30%, similar to 2007. For the entire mortgage portfolio, the most recently appraised value of the underlying



properties was approximately \$2.2 billion, for a loan-to-value ratio of approximately 36% at the end of Q3 2008, comparable to Q3 2007. Less than 1.0% of the portfolio has a loan-to-value of over 70% and 7.8% 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 and 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.

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 30%.
- A rate of future appreciation of up to 0.5% per annum is assumed for the life of the mortgage, in comparison with the Canadian 20 year average of approximately 4.20%.
- Each mortgage originated is limited in maximum dollar amount and 55% loan-to-value in accordance with internal guidelines.

Following similar steps taken in the past, in the third quarter of 2008 the assumed future property appreciation rates used in determining the client loan amount were lowered from a maximum of 1.50% per annum to 0.50% per annum to reduce the impact of a drop in residential real estate should that occur.

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 September 30, 2008, five loans had a loan to value greater than 83% having a balance of \$450,690 within the total portfolio of \$797.9 million. The appraised value of the property securing the mortgages is \$543,000.

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 September 30, 2008, \$54,090 or 17.7% lower than September 30, 2007.

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 Q3 2008, aggregate spread income and investment interest of \$5.9 million was \$0.6 million or 8.8% lower than Q3 2007, and the spread percentage in Q3 2008 decreased to 3.04% from 3.62% in Q3 2007.

Interest income earned on the mortgage portfolio in Q3 2008 was \$15.3 million, an increase of \$1.0 million or 6.7% over Q3 2007. The increase results mainly from the 17.6% growth in the average size of the mortgage portfolio, offset by the lower yield earned. The average yield earned on the mortgage portfolio of 7.77% was 77 basis points lower than Q3 2007 due to the lower rates on Government of Canada Treasury Bills ("T-Bills"), on which a majority of the Trust's mortgage rates are based.

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 \$90.9 million of cash and cash equivalents at September 30, 2008 which will be used to fund new mortgage originations. Net of the cash holdings, the Trust's debt increased 17.6% over Q3 2007, which is in proportion to the 17.3% growth in the average size of the mortgage portfolio referred to above. 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.

During the third quarter of 2008, as a result of its regular asset and liability matching assessment, the Trust reduced the notional amount of derivative contracts held. The Trust realized \$281,166 of gains on the transactions, which are netted against interest expense.



Interest expense on the debt portfolio, was \$10.1 million, an increase of \$2.1 million or 26.0% over Q3 2007 due to the higher average debt balance offset by the 19 basis point decrease in the average interest rate on the debt to 4.73%. Net of interest income earned on the higher cash holdings, the Trust's interest expense increased 19.4%.

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' Acceptances ("BAs") 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 T-Bills, on which most of the mortgage rates have historically been based, and the rate on BAs, 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. The interest rates of the mortgage and debt portfolios reset in equal proportions in either of February, May, August or November. The impact of the spread between T-Bills and BAs is largest during these months.

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.

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 a posted rate derived from the Trust's average cost of borrowing as opposed to a mark-up over the T-Bills 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.

Mortgages under the new pricing methodology currently represent approximately 5% of the total mortgage portfolio, and mortgages originated during Q3, 2008 have an average yield of approximately 8.40% in comparison to the portfolio average of 7.77%

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

(\$ thousands)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mortgage interest income (1)	11,933	12,869	12,994	13,559	14,345	15,040	15,199	15,214	15,302
Average mortgage balance (2)	581,115	603,576	620,740	643,532	666,433	693,790	721,296	752,014	781,368
Average mortgage yield – annualized (%)	8.15%	8.46%	8.49%	8.45%	8.54%	8.60%	8.46%	8.11%	7.77%
Interest expense	6,515	7,077	7,244	7,515	8,062	10,047	9,768	10,075	10,154
Average debt balance (3)	556,951	578,520	595,736	616,437	651,936	738,094	755,397	804,337	851,007
Cost of funds	4.64%	4.86%	4.93%	4.89%	4.92%	5.39%	5.19%	5.02%	4.73%
Spread income (\$)	5,418	5,792	5,750	6,044	6,283	4,993	5,431	5,139	5,148
Spread (%)	3.51%	3.60%	3.56%	3.56%	3.62%	3.21%	3.27%	3.09%	3.04%
Investment interest	121	155	103	72	225	1,096	707	678	799

(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 Q3 2008, the Trust originated \$37.8 million of mortgages with origination costs of 8.9%. Total origination costs of \$3.4 million in Q3 2008 increased by \$0.6 million or 20.8% over Q3 2007 in comparison to the 9.8% increase in mortgage originations. On a trailing four quarters basis, origination costs are 9.4%, similar to the trailing four quarters at Q3 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.

(\$ thousands)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mortgage originations	30,784	24,857	25,644	33,388	34,442	33,794	28,235	39,019	37,814
Origination expenses									
Commissions	973	950	877	964	951	1,669	1,153	1,278	1,400
Direct origination expenses									
Origination salaries and benefits	159	159	175	185	172	196	198	195	198
Marketing	940	832	808	958	970	1,020	1,059	865	1,097
	1,099	991	983	1,143	1,142	1,216	1,257	1,060	1,295
Origination overhead expenses									
Salaries and benefits	934	1,086	1,023	1,156	1,136	1,271	1,055	1,041	1,057
Office	259	266	249	246	255	263	299	261	288
Subtotal	1,193	1,352	1,272	1,402	1,391	1,534	1,354	1,302	1,345
50% inclusion	597	676	636	701	696	767	677	651	673
Total origination cost	2,669	2,617	2,496	2,808	2,789	3,652	3,087	2,989	3,368
Origination cost (%)									
Current quarter	8.7%	10.5%	9.7%	8.4%	8.1%	10.8%	10.9%	7.7%	8.9%
Trailing four quarter	9.7%	9.7%	9.5%	9.3%	9.1%	9.2%	9.5%	9.2%	9.4%

Commissions of \$1.4 million increased \$0.4 million over Q3 2007. The average commission rate has increased slightly due to the costs of the new sales staff 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 Q3 2008 of \$1.1 million were \$0.1 million higher than Q3 2007, based on timing of marketing campaigns. During the quarter, the Trust' continued focus on cost control resulted in reduced origination overhead expenses by 3.3% over Q3 2007. 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 Q3 2008 the Trust recognized \$240,558 of revenue, 53% higher than Q3 2007 reflecting higher mortgage originations in the quarter and an increase in the closing fee charged to clients.



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 Q3 2008, the Trust's administration costs of \$1.2 million were \$0.1 million or 6.2% lower than Q3 2007 in comparison with growth in the average mortgage portfolio of \$114.9 million or 17.3%. As a percentage of the average mortgage portfolio, mortgage administration expenses were 0.63% for Q3 2008, a decrease from 0.79% in Q3 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.

(\$ thousands)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Average mortgage balance	581,115	603,576	620,740	643,532	666,433	693,790	721,296	752,014	781,368
Administration expenses									
Mortgage servicing and administration	91	120	92	95	78	71	73	65	66
Origination overhead expenses	597	676	636	701	696	767	677	651	673
Professional services	365	356	397	443	449	258	414	264	379
Amortization of capital assets	66	61	61	64	65	67	77	81	76
Other	38	55	97	77	80	106	161	93	86
Less:									
Mortgage administration fees	(36)	(32)	(26)	(35)	(45)	(39)	(21)	(37)	(39)
Total administration expenses	1,121	1,236	1,257	1,345	1,323	1,230	1,381	1,117	1,241
Administration expense %									
Annualized	0.77%	0.82%	0.81%	0.84%	0.79%	0.71%	0.75%	0.59%	0.63%
Trailing four quarters	0.82%	0.81%	0.79%	0.81%	0.81%	0.79%	0.77%	0.71%	0.67%

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. 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.

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 Q3 2008, the Trust's future income tax liabilities increased by \$0.1 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. During the quarter, the Trust operated within these covenants. At September 30, 2008, the senior debt-to-mortgage ratio was 87.9% 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 7,000 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 September 30, 2008 of \$850.7 million was \$171.9 million or 25.3% higher than September 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. Concurrent with repayment of the last maturity of commercial paper on May 22, 2008, the Trust terminated its liquidity facility to save the associated costs. The Trust may return to the commercial paper market in the future if conditions improve.



The Trust had \$90.9 million of cash as at September 30, 2008 thus reducing its exposure to short term refinancing risk during a period of particularly uncertain times in the capital markets.

The table below summarizes the timing of the expected final payments of the Trust's debt at September 30, 2008.

(\$ 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	September 30, 2008 Total	December 31, 2007 Total
Commercial Paper	—	—	—	—	—	76,788
Medium-Term Debt	—	150,000	640,671	—	790,671	626,753
Subordinated Debt	—	—	60,000	—	60,000	60,000
Total	—	150,000	700,671	—	850,671	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. On July 16, 2008, the Trust announced that it has suspended the distribution reinvestment plan. Prior to the announcement, the Trust issued 139,071 units for \$1.2 million under the distribution reinvestment plan for the year.

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 September 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	—	—	14,846	14,846
Issued under distribution reinvestment plan	139,071	—	—	139,071
Balance, September 30, 2008	13,953,592	79,696	80,776	14,114,064



DISTRIBUTABLE CASH AND DISTRIBUTIONS

Cash available for distribution and portfolio growth

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.

In 2007, the Canadian Securities Administrators issued amended guidance for reporting by income trusts. The policy statement recommends various disclosures and, in particular, describes a new framework for measuring the amount of distributable cash generated by an income trust. The guidance requires the determination of distributable cash to be reconciled to cash generated from operating activities. The Trust has followed the new guidance. The comparative period calculations of distributable cash have been restated to reflect the current period's presentation.

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, the 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 Q3 2008, distributable cash decreased by \$0.5 million or 11.1% in comparison to Q3 2007. As outlined in the Mortgage Origination Cost section earlier in the MDA, the Trust spent \$3.4 million to originate \$37.8 million of new mortgages compared to \$2.8 million to originate \$34.4 million in Q3 2007. Of the origination costs incurred in the quarter, \$2.0 million were expensed in the period compared to \$1.8 million in Q3 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. The following table provides the details of the calculation of Distributable Cash for the past nine quarters.

HOMEQ

Home Equity Income Trust

	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
(\$ thousands, except per unit amounts)									
DISTRIBUTABLE CASH									
Cash flows from operating activities	15	(4,138)	(2,875)	(1,335)	(978)	(2,099)	(6,058)	(4,722)	(2,865)
Add/(deduct)									
Changes in non-cash working capital	(4,650)	938	(234)	(353)	(1,431)	(2,836)	(1,327)	(445)	(2,641)
Net accrual of interest on mortgages	8,058	6,789	6,728	5,486	6,653	8,554	10,952	9,203	9,258
Capital expenditures	(2)	(6)	(35)	(63)	(33)	(77)	(110)	(90)	(10)
Distributable cash	3,421	3,583	3,584	3,735	4,211	3,542	3,457	3,946	3,742
Total distributions	3,628	3,675	3,714	3,700	3,709	3,721	3,769	3,739	3,765
Excess/(shortfall)	(207)	(92)	(130)	35	502	(179)	(312)	207	(23)
Distributable cash per unit	0.250	0.261	0.260	0.270	0.304	0.254	0.247	0.281	0.265
Distributions per unit	0.269	0.270	0.270	0.270	0.270	0.270	0.270	0.270	0.270
Average number of units outstanding (000's)	13,687	13,724	13,773	13,830	13,872	13,918	13,981	14,061	14,113
Payout ratio	106%	103%	104%	99%	88%	105%	109%	95%	101%
Trailing four quarter payout ratio	121%	115%	107%	103%	98%	98%	100%	99%	102%
FINANCING AND INVESTING ACTIVITIES									
Cash from financing activities									
New debt financing, net of issue costs and repayments	24,164	16,617	19,379	29,425	45,480	87,581	(7,214)	95,147	(797)
New equity issues, net of issue costs	393	409	464	442	461	467	490	504	175
Cash available for investing activities	24,557	17,026	19,843	29,867	45,941	88,048	(6,724)	95,651	(622)
Investing activities									
Net originations	(18,400)	(12,761)	(14,441)	(17,960)	(17,953)	(22,214)	(20,088)	(21,843)	(22,874)
Net accrual of mortgage interest	(8,058)	(6,789)	(6,728)	(5,486)	(6,653)	(8,554)	(10,952)	(9,203)	(9,258)
Total investing activities	(26,458)	(19,550)	(21,169)	(23,446)	(24,606)	(30,768)	(31,040)	(31,046)	(32,132)
Excess/(shortfall) distributable cash	(207)	(92)	(130)	35	502	(179)	(312)	207	(23)
Changes in non-cash working capital	4,650	(938)	234	353	1,431	2,836	1,327	445	2,641
Total	4,443	(1,030)	104	388	1,933	2,657	1,015	652	2,618
Net increase/(decrease) in cash and cash equivalents	2,542	(3,554)	(1,222)	6,809	23,268	59,937	(36,749)	65,257	(30,136)



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.

Normalized income in Q3 2008 amounted to \$4.0 million or \$0.286 per unit, a 19.1% decrease of \$0.9 million, or 20.3% per unit over Q3 2007. The decrease in the quarter is mainly due to the compressed spread income earned on the portfolio. Distributions declared in the quarter were \$3.8 million or \$0.27 per unit, equivalent to 94.4% of normalized income per unit.



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

(\$ thousands)	2006		2007				2008		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net income (loss)	2,255	2,430	1,123	(10,992)	5,152	6,302	13,045	(2,803)	3,516
Add/(deduct):									
Non-cash items									
Future income tax expense (recovery)	27	(157)	(5)	5,780	1,073	145	3,184	(1,282)	63
Unrealized (gains) losses on derivative instruments (1)	—	—	959	7,468	(3,423)	(4,427)	(14,306)	6,360	(1,671)
Amortization of purchase premiums and origination fees (2)	950	950	977	921	945	990	892	953	939
	3,232	3,223	3,054	3,177	3,747	3,010	2,815	3,228	2,847
Direct origination expenses (3)	1,099	991	983	1,143	1,142	1,216	1,257	1,060	1,295
Origination overhead expenses (4)	597	676	636	701	696	767	677	651	673
Less:									
Amortization of direct origination expenses and origination overhead expenses (5)	(433)	(468)	(503)	(554)	(599)	(648)	(699)	(741)	(779)
	1,263	1,199	1,116	1,290	1,239	1,335	1,235	970	1,189
Normalized Income	4,495	4,422	4,170	4,467	4,986	4,345	4,050	4,198	4,036
Average number of units outstanding	13,687	13,724	13,773	13,828	13,872	13,918	13,981	14,061	14,113
Normalized Income per unit									
Current quarter	0.328	0.322	0.303	0.323	0.359	0.312	0.290	0.299	0.286

- (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" 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 through 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 new debt raised by the Trust to fund growth in the portfolio. In addition, the difference between the Prime Rate and the rate on T-Bills, on which mortgage rates have historically been based, and the rate on BAs, 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.

As discussed in the MDA, in recent times both the cost of new debt and the difference between the Prime Rate and the rate on T-Bills have deviated significantly from historical norms resulting in a reduction in spread income earned. While the Trust has taken steps to mitigate this issue, it will remain subject to near term capital market circumstances.

Leverage and Refinancing

The Trust, in its normal course of business, has 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 costs 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 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 0.5% 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 4.20% per annum, or more than eight 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

The Canadian Accounting Standards Board (AcSB) confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for publicly accountable enterprises, including HOMEQ, effective for fiscal years beginning on or after January 1, 2011. Accordingly, HOMEQ will report interim and annual financial statements in accordance with IFRS beginning with the quarter ended March 31, 2011.

The Company has commenced the development of an IFRS implementation strategy to prepare for this transition, and is currently in the process of identifying the key accounting policy changes that may be required.



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 T Bills and BAs 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 changing the pricing methodology to a posted rate derived from the Trust's average cost of borrowing as opposed to a mark-up over the T Bill rate as has previously been the case. These steps, however, will take some time to be fully reflected in the Trust's results as the vast majority of the Trust's existing portfolio has rates set using the old methodology. As a result, spread percentage for the next several quarters will continue to be highly dependant on the spread between rates on T Bills and BAs.

During Q3, the spread percentage of 3.04% was comparable with that of Q2, 2008. At the time of the mortgage and debt resets in November 2008, however, continued capital market volatility caused the spread difference between rates on T Bills and BAs to widen to historic highs of in excess of 100 basis points in comparison to the recent experience of between 40 and 60 basis points. As a result, we expect spread percentage to be between 2.75% and 3.00% in the forthcoming quarter.

The Trust's decision to reduce the rate of assumed future property appreciation from a maximum of 1.50% per annum to 0.50% per annum will reduce the average mortgage amount for new clients by between 5% and 15%. In addition ongoing financial and economic uncertainty may reduce consumer confidence among Canadian seniors making them less likely to consider a reverse mortgage. Despite the strong growth in originations experienced so far this year, the Trust expects that by the end of 2008, year over year origination growth will moderate to between 0% and 5%. In response to the possibility of lower originations in Q4, the Trust has taken steps to reduce costs by scaling back marketing and overhead expenditures and rationalizing its sales territories. As the current financial and economic situation is unprecedented, the Trust cannot predict the longer term impact on new originations.

As a result of current uncertainty in the capital markets the Trust has decided to reduce the monthly distribution to reflect the approximate current level of taxable income. Effective November 30th the monthly distribution will be changed from \$0.09 to \$0.06 per unit.

Based on the steps taken to date and current levels of cash and cash equivalents, the Trust expects to have sufficient capital through to the last quarter of 2009.

ADDITIONAL INFORMATION

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

November 11, 2008

HOME EQUITY INCOME TRUST**INTERIM CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

	As at September 30, 2008	As at December 31, 2007
	\$	\$
ASSETS		
CASH AND CASH EQUIVALENTS (Note 3)	90,887,449	92,516,283
MORTGAGES (Note 4 and 13)	852,774,770	762,427,629
PREPAID EXPENSES	877,754	1,022,744
FUTURE INCOME TAX ASSETS (Note 5)	97,088	126,275
PROPERTY AND EQUIPMENT, net of accumulated amortization	725,278	748,345
DERIVATIVE INSTRUMENTS (Note 12)	13,173,974	2,457,861
GOODWILL	19,108,636	19,108,636
	977,644,949	878,407,773
LIABILITIES AND UNITHOLDERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,588,210	3,204,028
DISTRIBUTIONS PAYABLE TO UNITHOLDERS	1,612,446	1,518,595
FUTURE INCOME TAX LIABILITIES (Note 5)	8,832,949	6,897,626
COMMERCIAL PAPER (Note 6 and 13)	—	76,788,449
MEDIUM-TERM DEBT (Note 7, 12 and 13)	805,528,693	634,195,761
SUBORDINATED DEBT (Note 8 and 13)	60,490,072	60,440,107
DERIVATIVE INSTRUMENTS (Note 12)	1,794,879	1,451,267
UNITHOLDERS' EQUITY	97,797,700	93,911,940
	977,644,949	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		For the nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	\$	\$	\$	\$
REVENUES				
Mortgage interest (Note 4)	14,230,666	13,571,725	42,636,891	38,250,150
Mortgage closing fees, net of costs	240,558	157,123	635,522	462,284
Mortgage administration fees	39,375	45,514	97,131	106,969
Investment interest and other	799,424	224,656	2,184,602	399,252
	15,310,023	13,999,018	45,554,146	39,218,655
DIRECT COSTS				
Interest expense (Note 9)	10,153,543	8,061,536	29,996,700	22,820,854
Origination salaries and benefits	198,374	171,899	591,496	532,863
Mortgage servicing and administration	66,374	78,262	204,519	265,747
	10,418,291	8,311,697	30,792,715	23,619,464
OPERATING MARGIN	4,891,732	5,687,321	14,761,431	15,599,191
MARKETING	1,096,847	969,830	3,020,468	2,743,283
OVERHEAD EXPENSES				
Salaries and benefits	1,057,120	1,135,917	3,153,268	3,315,343
Professional services	379,207	443,597	1,061,214	1,275,134
Office expenses	288,362	260,432	844,729	764,344
Amortization of property and equipment	75,974	65,268	233,599	190,261
Other	86,227	80,288	340,633	254,261
	1,886,890	1,985,502	5,633,443	5,799,343
INCOME BEFORE UNDER NOTED ITEMS	1,907,995	2,731,989	6,107,520	7,065,565
Unrealized (gain) loss on derivative instruments	(1,671,092)	(3,422,723)	(9,617,201)	5,004,156
Recovery of current income taxes	—	(70,373)	2,290	(70,373)
Future income tax expense (Note 5)	62,765	1,072,861	1,964,510	6,848,177
NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME	3,516,322	5,152,224	13,757,921	(4,716,395)
UNITHOLDERS' EQUITY, beginning of period	97,773,751	88,800,836	93,911,940	103,399,558
Net proceeds from issuance of Trust units (Note 10)	317,503	592,900	1,495,881	1,735,721
Distributions declared to unitholders	(3,809,876)	(3,748,271)	(11,368,042)	(11,204,960)
Transition adjustment on adoption of Financial instrument standards	—	—	—	1,583,766
UNITHOLDERS' EQUITY, end of period	97,797,700	90,797,689	97,797,700	90,797,690
AVERAGE NUMBER OF UNITS OUTSTANDING	14,113,251	13,871,538	14,051,634	13,824,842
NET INCOME (LOSS) PER TRUST UNIT (Basic and Diluted)	0.249	0.371	0.979	(0.341)

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

HOME EQUITY INCOME TRUST

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW

(UNAUDITED)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net income (loss)	3,516,322	5,152,224	13,757,921	(4,716,395)
Adjust for non-cash items				
Amortization				
Amortization of purchase price premiums and origination fees	939,564	945,061	2,784,583	2,843,222
Amortization of debt issue costs	292,852	105,562	818,638	476,726
Amortization of property and equipment	75,974	65,268	233,599	190,261
Amortization of deferred commissions	394,592	263,352	1,087,119	716,791
Compensation expense related to long-term incentive plans	142,075	132,191	326,915	368,668
Recovery of income taxes	—	(70,373)	—	(70,373)
Future income tax expense	62,765	1,072,861	1,964,510	6,848,177
Unrealized (gain) loss on derivative instruments	(1,671,092)	(3,422,723)	(9,617,201)	5,004,156
	3,753,052	4,243,423	11,356,084	11,661,233
Changes in non-cash working capital				
Accrual of interest payable on debt	2,458,549	1,656,163	5,883,414	2,645,179
Other	182,069	(224,812)	(1,470,828)	(627,167)
	2,640,618	1,431,351	4,412,586	2,018,012
Accrual of interest on mortgages	(15,301,729)	(14,344,881)	(45,715,705)	(40,897,744)
Repayments of accrued interest	6,043,421	7,691,810	16,302,012	22,030,224
Net accrual of interest on mortgages	(9,258,308)	(6,653,071)	(29,413,693)	(18,867,520)
Cash used in operating activities	(2,864,638)	(978,297)	(13,645,023)	(5,188,275)
INVESTING ACTIVITIES				
Mortgages originated	(37,813,972)	(34,442,051)	(105,067,561)	(93,474,778)
Mortgage principal repayments	16,339,213	17,440,768	44,092,653	45,914,710
Commissions	(1,399,787)	(951,405)	(3,830,242)	(2,792,446)
Purchase of capital assets	(10,306)	(32,739)	(210,532)	(131,473)
Cash used in investing activities	(22,884,852)	(17,985,427)	(65,015,682)	(50,483,987)
FINANCING ACTIVITIES				
Proceeds (repayments) of commercial paper, net	—	48,912,645	(76,074,732)	98,423,399
Gross proceeds of medium-term debt	—	—	165,000,000	—
Repayment of medium-term debt	(760,257)	—	(1,081,896)	—
Capitalized debt issue costs	(37,018)	—	(706,276)	—
Decrease in Securitization trust debt	—	(3,432,684)	—	(4,139,088)
Distributions to unitholders	(3,765,251)	(3,709,243)	(11,274,191)	(11,122,513)
Proceeds from units issued under distribution reinvestment plan	175,428	460,709	1,168,966	1,367,052
Cash (used in) from financing activities	(4,387,098)	42,231,427	77,031,871	84,528,850
Net (decrease) increase in cash and cash equivalents during the period	(30,136,588)	23,267,703	(1,628,834)	28,856,588
Cash and cash equivalents, beginning of period	121,024,037	9,312,892	92,516,283	3,724,007
Cash and cash equivalents, end of period	90,887,449	32,580,595	90,887,449	32,580,595
Supplemental cash flow information:				
Interest paid	6,501,884	6,255,257	23,128,199	19,620,124
Taxes paid	—	2,663	2,290	2,663

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 11.

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 13.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and short-term investments. These financial assets are classified as held-for-trading. The fair value of the short-term investments approximates their carrying value.

4. MORTGAGES

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

	As at	
	September 30, 2008	December 31, 2007
	\$	\$
Mortgage principal plus accrued interest	798,161,809	707,773,208
Mortgage purchase price premiums, net of accumulated amortization	37,672,920	40,282,883
Mortgage origination fees, net of accumulated amortization	2,595,627	2,770,134
Deferred commissions, net of accumulated amortization	14,595,378	11,852,368
Less: portfolio reserves	(250,964)	(250,964)
	852,774,770	762,427,629

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)**

September 30, 2008

4. MORTGAGES - (continued)

Mortgages with a loan-to-value of greater than 83% at September 30, 2008 totaled \$450,690 (December 31, 2007 - \$291,136) and the appraised value of the underlying properties was \$543,000 (December 31, 2007 - \$350,500).

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Interest income	\$ 15,301,729	\$ 14,344,880	\$ 45,715,705	\$ 40,897,744
Early repayment fees	263,093	435,258	792,888	912,419
Less: Amortization of deferred commissions	(394,592)	(263,352)	(1,087,119)	(716,791)
Amortization of purchase price premiums and origination costs	(939,564)	(945,061)	(2,784,583)	(2,843,222)
	14,230,666	13,571,725	42,636,891	38,250,150

5. 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	
	September 30, 2008	December 31, 2007
	\$	\$
Capital assets	38,256	28,352
Non-capital loss carry forwards	58,832	97,923
	97,088	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 September 30, 2008, the Trust's subsidiaries had non-capital losses carried forward of \$175,657. The non-capital losses expire as follows: 2010 - \$109,246, 2014 - \$44,138 and 2015 - \$22,273.

Future Income Tax Liabilities	As at	
	September 30, 2008	December 31, 2007
	\$	\$
Mortgages	6,838,635	6,838,635
Derivative instruments	1,994,314	58,991
	8,832,949	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.

HOME EQUITY INCOME TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

6. 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.

7. MEDIUM-TERM DEBT

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

Series	Expected final payment	Interest basis	Interest rate at September 30, 2008	September 30, 2008	Fair Market Value	December 31, 2007
				\$	\$	\$
2007-1	Nov 1, 2009	Fixed rate	5.407%	150,000,000	150,232,200	150,000,000
2005-1	Nov 1, 2010	Fixed rate	4.296%	110,000,000	107,493,320	110,000,000
2007-3	May 2, 2011	Fixed rate	5.613%	125,000,000	124,689,188	125,000,000
2008-1	May 16, 2011	Fixed rate	5.764%	165,000,000	164,960,070	—
2006-3	Aug 1, 2012	Fixed rate	4.542%	115,000,000	109,073,245	115,000,000
2006-1	Feb 1, 2013	Fixed rate	4.637%	105,000,000	98,491,103	105,000,000
2007-2	Mar 15, 2013	Floating rate (1)	3.941%	20,670,932	19,960,679	21,752,828
				790,670,932	774,899,805	626,752,828
Interest payable				16,529,845		9,898,599
Debt issue costs, net of accumulated amortization				(2,427,384)		(2,455,666)
Adjustment in carrying value of hedged debt (see Note 12)				755,300		—
				805,528,693		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% until legal maturity. The legal maturity dates of these notes range from August 1, 2031 to May 16, 2033.

8. SUBORDINATED DEBT

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

Series	Expected final payment	Interest basis	Interest rate at September 30, 2008	September 30, 2008	Fair market value	December 31, 2007
				\$	\$	\$
2007-1B	Nov 1, 2012	Fixed rate	6.663%	20,000,000	19,510,090	20,000,000
2007-2B	Mar 15, 2013	Fixed rate	7.582%	20,000,000	20,260,000	20,000,000
2006-2B	Aug 1, 2013	Fixed rate	5.803%	20,000,000	18,586,470	20,000,000
				60,000,000	58,356,560	60,000,000
Interest payable				870,859		904,974
Debt issue costs, net of accumulated amortization				(380,787)		(464,867)
				60,490,072		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% until legal maturity. The legal maturity dates of these notes range from August 1, 2031 to November 1, 2032.

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

HOME EQUITY INCOME TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

9. INTEREST EXPENSE

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
Interest on commercial paper & liquidity line ⁽¹⁾	—	1,373,581	1,154,435	2,759,991
Interest on medium-term notes ⁽²⁾	9,437,855	3,632,179	25,737,975	10,953,479
Interest on subordinated debt ⁽²⁾	422,836	281,726	2,207,346	833,138
Interest on securitization trust debt ⁽³⁾	—	2,585,217	—	7,626,006
Commercial paper expenses	—	83,271	78,306	171,505
Amortization of debt issue costs	292,852	105,562	818,638	476,726
	10,153,543	8,061,536	29,996,700	22,820,854

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

(2) Included in interest on medium-term notes and interest on subordinated debt are realized gains and losses on derivative instruments.

(3) 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.

10. 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	
Units issued under distribution reinvestment plan	24,654	175,428
Units earned and granted under the long-term incentive plans ⁽¹⁾	7,807	142,075
	32,461	317,503
Balance, September 30, 2008	14,114,064	1,495,881

(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 September 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.

10. 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 September 30, 2008, the Trustees have earned 80,776 units under the DUP.

For the period ending September 30, 2008, compensation expense under the long-term incentive plans was \$326,915 (September 30, 2007 - \$368,668).

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 Toronto Stock Exchange, 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.

11. 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 and cash equivalents, 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 September 30, 2008, the senior debt-to-mortgage ratio was 87.9%, the total debt-to-mortgage ratio was 95.3% and the Trust held more than 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 September 30, 2008 was approximately \$1.1 billion (December 31, 2007, \$957.9 million)

HOME EQUITY INCOME TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

12. 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 September 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	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
Interest rate contracts						
Swaps			\$	\$	\$	\$
Pay floating	4.230%	4.529%	822,000,000	535,000,000	13,169,501	2,053,213
Pay fixed	3.296%	3.862%	10,000,000	78,000,000	1,525	343,361
			832,000,000	613,000,000	13,171,026	2,396,574
Forward Rate Agreements						
Pay floating	—	4.275%	—	40,000,000	—	23,443
Pay fixed	3.230%	4.460%	5,000,000	90,000,000	2,948	37,844
			5,000,000	130,000,000	2,948	61,287
ASSETS					13,173,974	2,457,861
Swaps						
Pay floating	—	4.099%	—	130,000,000	—	939,545
Pay fixed	4.154%	4.550%	124,000,000	69,000,000	1,763,402	407,329
			124,000,000	199,000,000	1,763,402	1,346,874
Forward Rate Agreements						
Pay floating	2.697%	4.563%	35,000,000	245,000,000	25,156	70,605
Pay fixed	3.410%	5.080%	6,000,000	20,000,000	6,321	33,788
			41,000,000	265,000,000	31,477	104,393
LIABILITIES					1,794,879	1,451,267

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

12. DERIVATIVE INSTRUMENTS (Continued)

Maturity Terms

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

Notional principal (\$ thousands)	Remaining term to maturity				September 30, 2008	December 31, 2007
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
Swaps	38,000	585,000	333,000	—	956,000	812,000
Forward rate agreements	46,000	—	—	—	46,000	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 September 30, 2008.

Hedge Accounting Results

During the period ended September 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 positive \$755,300 at September 30, 2008 and is recorded as derivative instruments asset on the balance sheet. The Trust has recorded \$755,300 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 debit to unrealized (gain) loss on derivative instruments in the consolidated statement of operations and unitholders equity. See Note 7.

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, no gains or losses arising from hedge ineffectiveness were recorded in the period ending September 30, 2008.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

12. 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.

13. 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. 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 30%. A rate of future appreciation of up to 0.5% per annum is assumed, in comparison with the Canadian 20 year average of approximately 4.20%. Each mortgage originated is limited in maximum dollar amount and loan-to-value in accordance with internal guidelines. The Trust also obtains 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 \$2.2 billion.

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

Mortgage Portfolio – by Loan-to-Value	Dollar Volume As At		Percentage As At	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
	\$	\$	%	%
Less than 30.0%	168,340,164	150,895,239	21.1%	21.3%
30.1% - 40.0%	222,341,879	202,198,370	27.9%	28.6%
40.1% - 50.0%	218,851,253	179,339,048	27.4%	25.3%
50.1% - 60.0%	126,242,438	113,650,191	15.8%	16.1%
60.1% - 70.0%	58,159,353	50,304,123	7.3%	7.1%
Greater than 70.1%	4,226,722	11,386,237	0.5%	1.6%
	798,161,809	707,773,208	100.0%	100.0%

HOME EQUITY INCOME TRUST

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

September 30, 2008

13. FINANCIAL INSTRUMENTS – FINANCIAL RISKS – (Continued)

Mortgage Portfolio – by Province	Dollar Volume As At		Percentage As At	
	September 30, 2008	December 31, 2007	September 30, 2008	December 31, 2007
	\$	\$	%	%
Ontario	343,856,820	322,744,475	43.1%	45.6%
British Columbia	292,408,437	249,060,292	36.6%	35.2%
Alberta	90,670,556	76,032,421	11.4%	10.7%
Quebec	42,953,744	36,564,009	5.4%	5.2%
Other	28,272,252	23,372,011	3.5%	3.3%
	798,161,809	707,773,208	100.0%	100.0%

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	September 30, 2008 Total	December 31, 2007 Total
Commercial Paper	—	—	—	—	—	76,788
Medium-Term Debt	—	150,000	640,671	—	790,671	626,753
Subordinated Debt	—	—	60,000	—	60,000	60,000
Total	—	150,000	700,671	—	850,671	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	3,990,809	4,253,356
50 basis point decrease	(3,990,809)	(4,253,356)

These sensitivities are hypothetical and should be used with caution.

14. 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.

15. 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.

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 September 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.

November 11, 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 September 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.

November 11, 2008



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

For further information, please contact:

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or

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Vice President, Finance



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