



INTERIM QUARTERLY REPORT
For the quarter ended
March 31, 2009



Financial highlights (\$ thousands except per unit and percentage amounts)	Three months ended March 31	
	2009	2008
OPERATING RESULTS		
Net income	3,091	13,045
Per unit	0.218	0.933
Normalized income (1)	3,061	4,054
Per unit	0.216	0.290
Spread income (2)	5,685	5,431
Spread percentage	2.95%	3.27%
Distributions per unit	0.18	0.27
Mortgage originations	14,680	28,235
Trailing four quarter origination cost %	9.8%	9.5%
Trailing four quarter administration expense %	0.70%	0.77%
BALANCE SHEET HIGHLIGHTS		
Total assets	1,000,289	886,604
Mortgage principal plus accrued interest	825,727	737,659
Commercial paper	—	69,324
Medium term debt	806,652	637,765
Subordinated debt	60,324	60,512
PORTFOLIO QUALITY		
Appraised value of underlying properties	2,303,122	2,059,729
Average loan to value	36%	36%
Non accrual mortgage value	702	291
Portfolio reserves	408	250

(1) Normalized income, a non-GAAP measure, as discussed on pages 16 and 17 of the MD&A

(2) Spread income, a non-GAAP measure, as discussed on pages 8 and 9 of the MD&A

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 anticipated dividend policy, the Trust's plans relating to the conversion and the establishment of HomeEquity Bank, 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 March 31, 2009.

Among the highlights in Q1 2009 as compared to Q1 2008:

- The mortgage portfolio grew 12% on an annual basis to \$826 million;
- Originations of \$15 million declined by 48% and spread percentage of 2.95% declined from 3.27% in accordance with guidance issued in Q4 2008;
- Normalized income per unit decreased 25% to \$0.22;

Despite ongoing global financial and economic uncertainty during the quarter, the Trust again displayed resilience and produced encouraging results. While we cannot know for certain that the worst is behind us, we are cautiously optimistic that recent developments internal and external to our business will continue to have positive effects on our performance.

As announced in Q4, 2008, the Trust intends to apply to the Minister of Finance for its subsidiary, Canadian Home Income Plan ("CHIP"), to become a federally regulated Schedule I bank to be known as HomEquity Bank. At the April 30th annual and special meeting, the Trust's unitholders voted in favour of converting its business structure from an income trust to a taxable corporation (the "Conversion") prior to HomEquity Bank being continued as a Schedule I bank. The objective of obtaining a bank charter is to enable HomEquity Bank to access retail deposits sourced through deposit brokers so as to grow the Trust's consolidated reverse mortgage portfolio and increase its spread income. Retail deposits represent a stable and cost effective source of funds that will be used to supplement the wholesale funding strategy the Trust has followed since its IPO in 2002.

During Q1, the Trust continued to work diligently towards this end and, subject to the review and approval of its application by the Office of the Superintendent of Financial Institutions and the Minister of Finance, the Trust continues to target operating HomEquity Bank commencing in the third quarter of 2009. In the interim, the Trust has taken specific actions to conserve its cash resources. Steps have been taken to reduce the average mortgage amount for new customers and marketing activity has been scaled back. Until such time as HomEquity Bank becomes fully operational, these actions will result in originations being temporarily reduced. During the quarter the portfolio grew by 12% to \$826 million and mortgage originations of \$15 million were in accordance with guidance issued in Q4 2008.

As a result of conservative underwriting policies, our mortgage portfolio currently has an average loan-to-value of 36%, which will reduce the impact of an anticipated drop in residential real estate. Over the last several years we have refined our underwriting inputs to reduce risk in the event of declining property values. In particular, better than expected experience with regard to assumed future interest rates and expected occupancy terms will help to offset the near term effects of falling real estate values. As at March 31, 2009 less than 2% of the portfolio has a loan to value of over 70% and less than 10% of the portfolio has a loan to value of over 60%.

In order to ensure immediate availability of funds to finance new originations, in 2008 the Trust increased its cash holdings to higher than historical levels. The increased level of cash has had 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. In addition, the difference between the Prime Rate and the rate on Government of Canada Treasury Bills ("T-Bills"), on which mortgage rates have historically been based, and the rate on Bankers' Acceptances ("BAs"), on which the Trust's debt and hedging instruments are based, deviated significantly from historical norms. Both of these situations have resulted in a reduction of spread percentage during the last year.



In response, in 2008 the Trust increased the interest rate charged for new mortgages and 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 addition, during 2009, the difference between the T-Bills and BAs has begun to return to historical norms which, should it persist, will also help to restore spread percentage to higher rates. During Q1, 2009, spread percentage of 2.95% was in accordance with guidance issued in Q4, 2008.

Normalized income in Q1 2009 amounted to \$3.1 million and normalized income per unit was \$0.22 per unit, 25% lower than Q1 2008. During the quarter the Trust incurred \$0.5 million of costs associated with the Conversion. Normalized income net of these costs was \$3.6 million or \$0.25 per unit, a decrease of 13% per unit from Q1 2008. The decrease is mainly due to the reduction in spread income earned on the portfolio as discussed above.

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 some time. Based on the prudent steps taken to date and our current levels of cash and cash equivalents, under current circumstances we have sufficient capital through to the last quarter of 2009. We are well positioned to take advantage of the significant benefits of CHIP's continuance as a Schedule I bank and the eventual stabilization of the financial markets to continue to profitably build our portfolio.

Sincerely,

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

Pierre Lebel
Chairman, Board of Trustees

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

Steven K. Ranson
President & Chief Executive Officer

May 7, 2009



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 ended March 31, 2009 included herein and the MD&A and audited annual consolidated financial statements and notes for the year ended December 31, 2008. These are available on SEDAR at www.sedar.com. This MD&A has been prepared based on information available as at May 7, 2009. 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.

The management discussion and analysis is dated May 7, 2009

CORPORATE OVERVIEW

The objective of Home Equity Income Trust is to generate stable profits and cash flow 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 special purpose trusts 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.

At the April 30, 2009 annual and special meeting, the Trust's unitholders voted in favour of converting the Trust to a taxable corporation under a Court approved plan of arrangement (the "Conversion"). The Conversion will result in the exchange of units of the Trust for shares of a publicly-listed corporation ("HOMEQ Corporation") that will own all the units of the Trust. Unitholders of the Trust will receive, for each unit held, one common share of HOMEQ Corporation on the effective date of the Conversion. The Trust anticipates that the Conversion will be completed on a tax-free rollover basis for Canadian residents.

The Conversion is part of the Trust's plan to continue CHIP as a federally-regulated, Schedule I Canadian bank. The new bank will be called HomEquity Bank in English and Banque HomEquity in French. By obtaining a bank charter, HomEquity Bank will have access to retail deposits sourced through deposit brokers. Continuing CHIP as a bank is subject to the review and approval of an application to the Minister of Finance. The Trust has been advised by the Office of the Superintendent of Financial Institutions that under current federal policy, the bank application will not be considered by the Minister until the Conversion of the Trust to a corporate structure has been completed.

The Conversion will be completed when all necessary conditions are satisfied and the Trust's board believes that the bank application is likely to be approved. Management expects the Conversion to take effect before the end of the second quarter.



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)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Total revenue	12,224	12,996	13,999	15,339	15,028	15,216	15,310	14,879	13,326
Direct Costs	7,511	7,797	8,312	10,313	10,040	10,335	10,418	9,725	8,768
Operating margin	4,713	5,199	5,687	5,026	4,988	4,881	4,892	5,154	4,558
Marketing	808	957	970	1,021	1,059	865	1,097	774	428
Overhead expenses	1,828	1,986	1,985	1,964	2,007	1,739	1,887	2,076	2,400
Income before undernoted items	2,077	2,256	2,732	2,041	1,923	2,277	1,908	2,304	1,730
Per unit	0.151	0.163	0.197	0.147	0.138	0.162	0.135	0.163	0.122
Less:									
Future income tax expense (recovery)	(5)	5,780	1,073	145	3,184	(1,282)	63	4,277	910
Current income tax expense (recovery)	—	—	(70)	21	—	2	—	(2)	—
Unrealized (gain) loss on derivative instruments	959	7,468	(3,423)	(4,427)	(14,306)	6,360	(1,671)	(17,746)	(2,271)
Net income (loss)	1,123	(10,992)	5,152	6,302	13,045	(2,803)	3,516	15,775	3,091
Per unit	0.082	(0.795)	0.371	0.453	0.933	(0.199)	0.249	1.116	0.218
Average number of units outstanding	13,773	13,828	13,872	13,918	13,981	14,061	14,113	14,124	14,153

During the quarter the Bank of Canada benchmark lending rate continued to fall, resulting in a corresponding drop in interest rates on Government of Canada Treasury Bills ("T-Bills") and Bankers Acceptances ("BAs"). This caused a decrease in both the yield of the Trust's mortgages and also its cost of funds. Total revenue for Q1 2009 of \$13.3 million was \$1.7 million or 11.3% lower than Q1 2008 due primarily to a 144 basis point reduction in the yield earned on the mortgage portfolio. The impact of the reduction in the yield was partially offset by growth in the mortgage portfolio of 12.0% from March 31, 2008. Direct costs of \$8.8 million decreased \$1.3 million or 12.7% from Q1 2008 primarily due to a 113 basis point reduction in the cost of borrowings on the debt from Q1 2008. The reduction in the cost of borrowing was offset by a 12.2% increase in the principal amount of outstanding debt at March 31, 2009 from Q1 2008. The resulting operating margin decreased by \$0.4 million or 8.6%. For the quarter, the Trust's spread percentage of 2.95% was similar to that of Q4, 2008 but lower than the 3.27% in Q1 2008, due to the effects of current capital markets circumstances.

In order to conserve the cash available for mortgage originations, the Trust reduced its marketing spend in the quarter and overhead expenses were also managed to 2008 levels. Costs incurred in the quarter relating to the Conversion have been expensed as incurred and amounted to \$0.5 million. Income before undernoted items decreased by \$0.2 million from Q1 2008, to \$1.7 million. On a per unit basis income before undernoted items was \$0.122 per unit a 12.0% decrease over Q1 2008. Excluding the effect of the Conversion expenditure, income before unrealized gains on derivative instruments and future income taxes would have been \$2.3 million or \$0.159 per unit. Details of the various elements impacting net income before undernoted items are discussed later in the MD&A.



Under GAAP, 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 to 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 Q1 2009, interest rates decreased resulting in a \$2.3 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 \$0.9 million to earnings during Q1 2009, compared to \$3.2 million in Q1 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 Q1 2009 was \$825.5 million, an increase of \$88.1 million or 12.0% over Q1 2008. The following table shows the growth in the mortgage portfolio on a quarterly basis for the past nine quarters.

(\$ millions)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Opening mortgage balance (1)	611.9	632.1	654.6	678.3	707.5	737.4	767.2	797.9	813.9
Originations	25.6	33.4	34.4	33.9	28.2	39.0	37.8	24.6	14.7
Accrued interest	13.0	13.6	14.3	15.0	15.2	15.2	15.3	15.2	14.2
Repayments of principal	(12.1)	(16.4)	(17.4)	(13.2)	(9.5)	(16.4)	(15.2)	(15.4)	(11.2)
Repayments of accrued interest	(6.3)	(8.1)	(7.6)	(6.5)	(4.0)	(8.0)	(7.2)	(8.4)	(6.1)
Ending mortgage balance (1)	632.1	654.6	678.3	707.5	737.4	767.2	797.9	813.9	825.5
# of origination transactions (2)	297	377	380	373	313	400	470	390	252
Loan to value of originations	30%	30%	30%	32%	31%	32%	30%	27%	28%
Total repayments as % of opening balance	3.0%	3.9%	3.8%	2.9%	1.9%	3.3%	2.9%	3.0%	2.1%
Trailing 4 quarters:									
Originations	108.8	114.6	118.2	127.3	129.9	135.5	138.9	129.6	116.1
# of origination transactions (2)	1,294	1,340	1,373	1,427	1,443	1,466	1,556	1,573	1,512
Average value (\$000's)	84.1	85.5	86.1	89.2	90.0	92.4	89.3	82.4	76.8
Total repayments	(76.3)	(79.0)	(86.8)	(87.6)	(82.7)	(82.6)	(80.0)	(84.1)	(87.9)

(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

Commencing in Q4, 2008, the Trust has taken specific actions to conserve its cash resources. Steps have been taken to reduce the average mortgage amount for new customers, marketing activity has been scaled back, overhead expenditure is being closely monitored and sales territories have been rationalized. Until such time as HomeEquity Bank becomes fully operational, these steps will cause originations to be temporarily reduced. As a result of these actions, the loan to value on new originations in the quarter dropped to 28% from a quarterly average of above 30%, and originations were \$14.7 million in Q1 2009, lower than the record levels of originations recently experienced.



The number of origination transactions in Q1 2009 decreased by 19.5% and the average value per transaction on a trailing four quarters basis decreased 14.7% to \$76,800 from Q1 2008 primarily due to the changes in underwriting inputs. In the opinion of the Trust, there was no undue concentration in originations by source, region, age group or property type.

Accrued interest in Q1 2009 of \$14.2 million decreased 6.6% from \$15.2 million in Q1 2008 mainly due to the 144 basis point reduction in yield earned on the mortgage portfolio. The impact of the reduction in the yield was partially offset by the 12.0% growth in the mortgage portfolio from Q1 2008

Total repayments of principal and interest of \$17.3 million in Q1 2009 were \$3.8 million or 28% higher than Q1 2008. The repayments as a percentage of the opening mortgage balance were at the lower end 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. Each property in the Trust's mortgage portfolio is reappraised at least every five years.

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 currently assumed for the life of the mortgage, in comparison with the Canadian 20 year average of approximately 3.17%. The average rate of assumed appreciation used in the initial underwriting of the existing mortgage portfolio is 1.60%
- Each mortgage originated is limited in maximum dollar amount and to 55% loan-to-value ratio.

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 on the mortgage portfolio of a drop in residential real estate should that occur.

The loan-to-value ratio of the \$14.7 million of new mortgages originated in Q1 2009 was lower than historical experience at 28%. For the entire mortgage portfolio, the most recently appraised value of the underlying properties was approximately \$2.3 billion, for a loan-to-value ratio of approximately 36% at March 31, 2009, comparable to March 31, 2008.

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 March 31, 2009, seven loans had a loan to value greater than 83% having a balance of \$0.7 million within the total portfolio of \$825.5 million. The appraised value of the property securing the mortgages is \$0.8 million. There were two mortgages with a loan-to-value greater than 83% at March 31, 2008 and six at December 31, 2008.

In addition, a portfolio reserve exists to compensate for possible future losses on mortgages whose loan-to-value ratios, while currently below 83%, are higher than expected. HOMEQ has evaluated its portfolio, and based on current conditions, has determined its portfolio reserves to be \$0.4 million at March 31, 2009, \$0.2 million higher than March 31, 2008.



Also during the underwriting process, the Trust makes assumptions as to when borrowers will cease occupying their homes (EOT). As of December 31, 2008, only 250 customers out of approximately 7,000 have exceeded their original EOT. The average current age of these customers is 90, illustrating the low level of future risk.

The mortgage portfolio at March 31, 2009 has a weighted average yield of 6.94%, compared to 8.54% at March 31, 2008, and more than two percent lower than the future interest rates used in the underwriting assumptions. This will result in a slower rate of interest compounding.

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' rated and investment grade debt used to fund the portfolio. For Q1 2009, aggregate mortgage interest income and investment interest of \$14.3 million was \$1.6 million or 9.9% lower than Q1 2008. The spread percentage in Q1 2009 of 2.95% was consistent with recent experience but lower than the 3.27% in Q1 2008.

Interest income earned on the mortgage portfolio in Q1 2009 was \$14.2 million, a decrease of \$1.0 million or 6.7% from Q1 2008. The decrease is primarily due to the lower yield earned on the mortgage portfolio which grew 12.0% from March 31, 2008. The average yield earned on the mortgage portfolio of 7.01% was 144 basis points lower than Q1 2008 due to the lower rates on T-Bills, on which a majority of the Trust's mortgage rates are based.

Due to capital market conditions, the Trust is carrying significant cash balances to provide a ready source of funds for new originations. The Trust had \$55.2 million of cash and short term investments at March 31, 2009, comparable to \$55.8 million at March 31, 2008. Net of the cash holdings, the Trust's debt increased 13.2% over Q1 2008, which is in proportion to the 12.0% growth in the average size of the mortgage portfolio referred to above. The increased level of cash, while important from a risk management perspective, continues to have a negative impact on spread income because of the associated increase in interest expense.

Interest expense on the debt portfolio, was \$8.5 million, a decrease of \$1.3 million or 13.1% from Q1 2008 due to a 113 basis point decrease in the average interest rate on the debt to 4.06%. Net of interest income earned on the higher cash holdings, the Trust's interest expense decreased 8.0%.

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. The average cost of senior debt outstanding at March 31, 2009 was approximately 90 basis points above the corresponding BA compared to approximately 54 basis points at March 31, 2008.

Commencing in 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, rose to levels higher than historical norms. This situation continued throughout 2008 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.

During 2009, the difference between the T Bills and BAs has again begun to approach historical norms which, should it persist, will also help to restore spread percentage to higher rates.

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-Bill's 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 represent approximately 8.9% of the total mortgage portfolio at March 31, 2009 and have an average yield of approximately 8.42% in comparison to the portfolio average of 7.01% earned in the first quarter. During Q1, 2009, spread percentage of 2.95% was consistent with guidance issued in Q4 2008.

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.

The Trust has interest rates swaps having a notional amount of \$159.0 million to hedge \$159.0 million of the \$165.0 million fixed rate medium-term debt issued in Q2 2008. 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. Under the provisions of GAAP, the Trust elected under CICA's Section 3865 – *Hedges* to apply hedge accounting for these interest rates swaps. The hedges are effective at March 31, 2009.

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

(\$ thousands)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Mortgage interest income (1)	12,994	13,559	14,345	15,040	15,199	15,214	15,302	15,036	14,177
Average mortgage balance (2)	620,740	643,532	666,433	693,790	721,258	752,014	781,435	805,422	820,375
Average mortgage yield – annualized (%)	8.49%	8.45%	8.54%	8.60%	8.45%	8.11%	7.77%	7.41%	7.01%
Interest expense	7,244	7,515	8,062	10,047	9,768	10,075	10,154	9,474	8,492
Average debt balance (3)	595,736	616,437	651,936	738,094	755,397	804,337	851,007	850,102	848,448
Cost of funds	4.93%	4.89%	4.92%	5.39%	5.19%	5.02%	4.73%	4.42%	4.06%
Spread (\$)	5,750	6,044	6,283	4,993	5,431	5,139	5,148	5,562	5,685
Spread (%)	3.56%	3.56%	3.62%	3.21%	3.27%	3.09%	3.04%	2.99%	2.95%
Investment interest	103	72	225	1,096	707	678	799	616	157

- (1) Excluding early repayment fees and amortization of purchase price premiums and commissions
- (2) Excluding unamortized purchase price premiums, origination fees and commissions
- (3) Reflects the principal portion of 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.

As referred to previously, the Trust has taken specific actions to conserve its cash resources resulting in a reduction in the rate of originations. As a result, originations in Q1 2009 were \$14.7 million, lower than the record levels of originations recently experienced. Total origination costs of \$2.2 million were \$0.9 million or 30.2% lower than Q1 2008 but the origination cost percentage was 3.8 percentage points higher at 14.7%. The trailing four quarter origination cost percentage continued to be below target at 9.8%. Origination costs are expected to remain consistent through the year, however with volumes projected to be between 50% and 60% of Q2 2008 levels, the origination cost percentage will remain higher than target for the immediate future.

The following table provides the details of the calculation for the past nine quarters.

(\$ thousands)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Mortgage originations	25,644	33,388	34,442	33,794	28,235	39,019	37,814	24,554	14,680
Origination expenses									
Commissions	877	964	951	1,669	1,153	1,278	1,400	1,230	856
Direct origination expenses									
Origination salaries and benefits	175	185	172	196	198	195	198	189	201
Marketing	808	958	970	1,020	1,059	865	1,097	774	428
	983	1,143	1,142	1,216	1,257	1,060	1,295	963	629
Origination overhead expenses									
Salaries and benefits	1,023	1,156	1,136	1,271	1,055	1,041	1,057	1,233	1,082
Office	249	246	255	263	308	248	288	266	264
Subtotal	1,272	1,402	1,391	1,534	1,363	1,289	1,345	1,499	1,346
50% inclusion	636	701	696	767	681	645	673	749	673
Total origination cost	2,496	2,808	2,789	3,652	3,091	2,983	3,368	2,942	2,158
Origination cost (%)									
Current quarter	9.7%	8.4%	8.1%	10.8%	10.9%	7.7%	8.9%	12.0%	14.7%
Trailing four quarter	9.5%	9.3%	9.1%	9.2%	9.5%	9.2%	9.4%	9.6%	9.8%

Commissions of \$0.9 million decreased \$0.3 million or 25.8% over Q1 2008 while mortgage originations decreased 48.0%. The average commission rate has increased in Q1 2009 due mainly to the fixed portion of the sales staff compensation during the quarter having reduced originations.

In order to conserve the cash available for mortgage originations, the Trust significantly reduced its marketing spend in the quarter by 59.6% compared to Q1 2008.

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 Q1 2009 the Trust recognized \$0.2 million of revenue, 22.4% higher than Q1 2008 reflecting the 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, and management has taken steps to offset the impact of increased cost of funds by actively managing its administrative costs. In Q1 2009, the Trust's administration costs, net of the \$0.5 million incurred for the Conversion, were \$1.3 million, 8.8% lower than Q1 2008 in comparison with growth in the average mortgage portfolio of \$99.1 million or 13.7%. As a percentage of the average mortgage portfolio, mortgage administration expenses, net of the costs incurred for the Conversion were 0.61% in Q1 2009, a decrease from 0.77% in Q1 2008 and 0.63% on a trailing four quarter basis compared to 0.77% for the period ended March 31, 2008.

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)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Average mortgage balance	620,740	643,532	666,433	693,790	721,296	752,014	781,368	805,422	820,375
Administration expenses									
Mortgage servicing and administration	92	95	78	71	73	65	66	64	75
Origination overhead expenses	636	701	696	767	681	645	673	749	673
Professional services	397	443	449	258	405	276	379	417	878
Amortization of capital assets	61	64	65	67	77	81	76	69	60
Other	97	77	80	106	161	93	86	93	116
Less:									
Mortgage administration fees	(26)	(35)	(45)	(39)	(21)	(37)	(39)	(31)	(25)
Total administration expenses	1,257	1,345	1,323	1,230	1,376	1,123	1,241	1,361	1,777
Administration expense (%)									
Annualized	0.81%	0.84%	0.79%	0.71%	0.75%	0.59%	0.63%	0.67%	0.87%
Trailing four quarters	0.79%	0.81%	0.81%	0.79%	0.77%	0.71%	0.67%	0.67%	0.70%

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 unitholders via 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. At the April 30th annual and special meeting, the Trust's unitholders voted in favour of converting its business structure from an income trust to a taxable corporation to facilitate obtaining a federally regulated, Schedule I banking license which is described further in the Outlook section. The conversion is expected to be completed in the second quarter of 2009.

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 Q1 2009, the Trust's future income tax liabilities increased \$0.9 million to \$14.0 million mainly due to the temporary differences between the financial reporting and tax basis of the derivatives that are 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. 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.



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 a AAA rating on the Trust’s senior medium term debt and BBB rating on its 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 mortgage portfolio value. During the year, the Trust operated within these covenants. At March 31, 2009, the senior debt-to-mortgage ratio was 89.0% and the total debt-to-mortgage ratio was 96.1%.

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 may not be able to raise medium term debt at cost effective rates and is carrying cash balances 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 prospectus 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. The Trust has issued \$331.9 million of medium term notes under this prospectus.

Total principal amount of outstanding debt at March 31, 2009 of \$848.0 million was \$91.9 million or 12.2% higher than March 31, 2008.

The table below summarizes the timing of the expected final payments of the Trust’s debt at March 31, 2009.

(\$ 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	March 31, 2009 Total	December 31, 2008 Total
Medium-Term Debt	150,000	110,000	527,989	—	787,989	789,186
Subordinated Debt	—	—	60,000	—	60,000	60,000
Total	150,000	110,000	587,989	—	847,989	849,186

The expected final payment date of the \$150 million due in less than one year is November 1, 2009. The Trust has a best efforts obligation to refinance the note on that date. If the Trust is unable to refinance the note, the interest will become the one-month Bankers’ Acceptance rate plus 2.00% calculated and payable monthly until legal maturity on November 1, 2032.



Equity

Periodically, as required, the Trust may issue additional units to manage its leverage as the mortgage portfolio grows.

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 March 31, 2009.

	Voting	Management Restricted Unit Plan	Trustees Deferred Unit Plan	Total number of units
Balance, December 31, 2008	13,953,592	79,696	90,261	14,123,549
Restricted units redeemed	49,247	(49,247)	—	—
Restricted unit grants, net	—	55,000	—	55,000
Deferred units earned	—	—	13,198	13,198
Balance, March 31, 2009	14,002,839	85,449	103,459	14,191,747

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 table below shows that in Q1 2009, distributable cash decreased by \$0.1 million or 3.0% from Q1 2008. As outlined in the Mortgage Origination Cost section earlier in the MDA, the Trust spent \$2.2 million to originate \$14.7 million of new mortgages compared to \$3.1 million to originate \$28.2 million in Q1 2008. Of the origination costs incurred in the quarter, \$1.3 million were expensed in the period, \$0.6 million lower than Q1 2008. The Trust believes that origination expenditures made in the past are contributing to growth in operating performance and distributable cash and that current period expenditures will have the same result in the future.

The level of distributions declared is reviewed periodically to take into account the current and future prospective performance of the business and other items considered to be prudent. As a result of current uncertainty in the capital markets, in Q4 2008 the Trust reduced the monthly distribution to reflect the approximate current level of taxable income in order to retain capital in the business to ensure the stability and predictability of the Trust's performance.



The following table provides the details of the calculation of Distributable Cash for the past nine quarters.

(\$ thousands, except per unit amounts)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4
DISTRIBUTABLE CASH									
Cash flows from operating activities	(2,875)	(1,335)	(978)	(2,099)	(6,225)	(2,700)	(1,760)	(9,782)	(2,424)
Add/(deduct)									
Changes in non-cash working capital	(234)	(353)	(1,431)	(2,836)	(1,327)	(445)	(2,641)	7,179	(2,088)
Net accrual of interest on mortgages	6,728	5,486	6,653	8,554	11,119	7,181	8,150	6,869	8,051
Capital expenditures	(35)	(63)	(33)	(77)	(110)	(90)	(10)	-	(187)
Distributable cash	3,584	3,735	4,211	3,542	3,457	3,946	3,739	4,266	3,352
Total distributions	3,714	3,700	3,709	3,721	3,769	3,739	3,765	3,350	2,652
Excess/(shortfall)	(130)	35	502	(179)	(312)	207	(26)	916	700
Distributable cash per unit	0.260	0.270	0.304	0.254	0.247	0.281	0.265	0.302	0.237
Distributions per unit	0.270	0.270	0.270	0.270	0.270	0.270	0.270	0.210	0.180
Average number of units outstanding (000's)	13,773	13,830	13,872	13,918	13,981	14,061	14,113	14,122	14,153
Payout ratio	104%	99%	88%	105%	109%	95%	101%	79%	79%
Trailing four quarter payout ratio	107%	103%	98%	98%	100%	99%	102%	95%	88%
FINANCING AND INVESTING ACTIVITIES									
Cash from financing activities									
repayments	19,379	29,425	45,480	87,581	(7,214)	95,147	(797)	(1,491)	(1,197)
New equity issues, net of issue costs	464	442	461	467	490	504	175	-	-
Cash available for investing activities	19,843	29,867	45,941	88,048	(6,724)	95,651	(622)	(1,491)	(1,197)
Investing activities									
Net originations	(14,441)	(17,960)	(17,953)	(22,214)	(19,921)	(23,865)	(23,979)	(10,399)	(4,337)
(Increase) decrease in short-term investments, net	-	-	-	-	-	-	-	(42,465)	8,435
Net accrual of mortgage interest	(6,728)	(5,486)	(6,653)	(8,554)	(11,119)	(7,181)	(8,150)	(6,869)	(8,051)
Total investing activities	(21,169)	(23,446)	(24,606)	(30,768)	(31,040)	(31,046)	(32,129)	(59,733)	(3,953)
Excess/(shortfall) distributable cash	(130)	35	502	(179)	(312)	207	(26)	916	700
Changes in non-cash working capital	234	353	1,431	2,836	1,327	445	2,641	(7,179)	2,088
Total	104	388	1,933	2,657	1,015	652	2,615	(6,263)	2,788
Net increase/(decrease) in cash and cash equivalents	(1,222)	6,809	23,268	59,937	(36,749)	65,257	(30,136)	(67,487)	(2,362)
Total debt-to-mortgage ratio	92.6%	93.2%	94.3%	94.9%	95.0%	95.3%	95.3%	96.3%	96.1%



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 on the existing business is expected to continue on the basis experienced over the prior years.

The cost of the Conversion and the continuation of CHIP as a federally-regulated, Schedule I Canadian bank is anticipated to be approximately \$2.2 million. The Trust anticipates that \$1.4 million will be capitalized and \$0.8 million will be expensed, of which \$0.5 million was expensed in Q1 2009.

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 2008 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. 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 Q1 2009 amounted to \$3.1 million, \$1.0 million or 25% lower than Q1 2008. Normalized income per unit was \$0.22 per unit, 25% lower than Q1 2008. The Trust incurred \$0.5 million of costs associated with the Conversion. Normalized income net of these costs was \$3.6 million or \$0.25 per unit, a decrease of 11.6% or 13% per unit from Q1 2008. The decrease is mainly due to the compressed spread income earned on the portfolio as discussed in the Net Spread section of the MD&A. Distributions declared were \$2.7 million or \$0.18 per unit, equivalent to 83% of normalized income per unit.



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

(\$ thousands)	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss)	1,123	(10,992)	5,152	6,302	13,045	(2,803)	3,516	15,775	3,091
Add/(deduct):									
Non-cash items									
Future income tax expense (recovery)	(5)	5,780	1,073	145	3,184	(1,282)	63	4,277	910
Unrealized (gains) losses on derivative instruments (1)	959	7,468	(3,423)	(4,427)	(14,306)	6,360	(1,671)	(17,746)	(2,271)
Amortization of purchase premiums and origination fees (2)	977	921	945	990	892	953	939	892	894
	3,054	3,177	3,747	3,010	2,815	3,228	2,847	3,198	2,624
Direct origination expenses (3)	983	1,143	1,142	1,216	1,257	1,060	1,295	963	629
Origination overhead expenses (4)	636	701	696	767	681	645	673	749	673
Less:									
Amortization of direct origination expenses and origination overhead expenses (5)	(503)	(554)	(599)	(648)	(699)	(741)	(779)	(829)	(865)
	1,116	1,290	1,239	1,335	1,239	964	1,189	883	437
Normalized Income	4,170	4,467	4,986	4,345	4,054	4,192	4,036	4,081	3,061
Average number of units outstanding	13,773	13,828	13,872	13,918	13,981	14,061	14,113	14,124	14,153
Normalized Income per unit Current quarter	0.303	0.323	0.359	0.312	0.290	0.298	0.286	0.289	0.216

- (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 Trust strategies to manage the primary risks it has identified are outlined below and on pages 25 through 27 in the MD&A of the Trust's 2008 Annual Report.

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. The initial mortgage amount is usually between 28% and 33% of the value of the house, substantially less than the 75% ratio commonly applied for a conventional bank mortgage. 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 past experience and the underwriting forecasts. The average rate of assumed appreciation used in the initial underwriting of the existing mortgage portfolio is 1.60% per annum. 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 3.17% per annum. The Trust currently uses a maximum of 0.5% as the future appreciation rate. In addition, the initial appraised value of every property is discounted, generally by between 7.5% and 30%, depending on the province, location, and property type.

Occupancy Risk

The Trust makes assumptions as to when borrowers will cease occupying their homes. To the extent that borrowers remain in their homes longer than expected, there is a risk that the amount owing on the reverse mortgage at the time the borrower moves or dies will exceed the value of property securing the reverse mortgage, thus resulting in a loss. The EOT for a borrower is determined based on a combination of industry standard mortality data and the Trust's proprietary data on the mobility of its clients at the 75% probability. This formula is closely monitored and is compared to actual experience on an ongoing basis. Calculation of the EOT is fundamental to determining the amount to lend and for predicting cash flows from mortgage repayments.

Interest Rate Risk

An increasing interest rate environment could also result in a mortgage eventually compounding to a value greater than the value of the underlying property. For this reason, when an initial loan amount is determined, interest rates in the future are assumed to be at least 2% higher than the rate at the initial term.

Spread Risk

The Trust's operating margin is primarily derived from the spread between interest earned on the mortgage portfolio, and the interest paid on the debt used to fund the portfolio. Circumstances in the capital markets can result in an increase in the cost of debt used by the Trust to fund the portfolio. In addition, the difference between the Prime Rate and the rate on T-Bills, on which most mortgage rates are based, and the rate on Bankers' Acceptances, on which the Trust's debt and hedging instruments are based, can deviate from historical norms. Both of these situations can result in a reduction of spread. 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.

Leverage and Refinancing

The Trust, in its normal course of business, is projected to have significant debt service obligations under its indebtedness. The degree to which The Trust is leveraged could have important consequences, on (i) the Trust's ability to obtain additional financing; (ii) the cost incurred to obtain additional debt or replace maturing debt (iii) the extent of the cash flow from reverse mortgages that will be dedicated to the payment of 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. The Trust mitigates these risks by issuing highly rated debt, by using a syndicate of several dealers to issue debt and by staggering the maturities of its debt obligations. Changes in general market conditions, fluctuations in markets for debt securities and other factors beyond the control of the Trust may affect the Trust's ability to successfully issue debt as and when required.

Restrictive Covenants

The Trust indenture contains covenants that place restrictions on, among other things, the ability of the Trust to incur additional indebtedness, to create liens or other encumbrances, to make cash distributions to unitholders, and to sell or otherwise dispose of significant assets or consolidate with another entity. A failure to comply with the obligations in the Trust indenture could result in an event of default, which if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness were to be accelerated, there can be no assurance that the assets of the Trust would be sufficient to repay in full that indebtedness.

Reliance on Relationships with Financial Institutions

The Trust has developed an extensive referral network in the broader financial service community, including distribution agreements with the largest Canadian banks. There can be no assurance that this referral network will be maintained. Furthermore, there is no assurance that any new distribution agreements entered into by the Trust will have terms similar to those contained in current arrangements with the banks. The termination or alteration of the referral network and distribution arrangements may adversely affect the Trust's ability to continue originating reverse mortgages, and its growth may be adversely affected as a result.

Access to Capital Markets

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

Dilution

The number of units the Trust is authorized to issue is unlimited, and any issuance of units may have a dilutive effect on unitholders' holdings. To prevent significant dilution, additional issuance of units is carefully managed and timed in order to reduce the initial impact.

Delays in Distribution

Payments by CMT to the Trust may be delayed by restrictions imposed by the Trust indenture or the establishment of reserves for expenses. Any such delay could have an adverse effect on the ability of the Trust to pay distributions.

CONTROLS AND PROCEDURES

Changes in Internal Controls over Financial Reporting

There have been no significant changes in the Trust's internal controls over financial reporting during the quarter ended March 31, 2009, 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

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Due to mixed practice on whether an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of a derivative instrument, the CICA's Emerging Issues



Committee released *EIC-173 Abstract, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC requires the inclusion of credit risk of the counterparty and the Trust in determining the fair value of derivative instruments for periods after January 20, 2009. The EIC requires retrospective adoption without restatement of prior periods. The Trust adopted the accounting treatment in the first quarter of 2009.

Goodwill, Intangible Assets and Financial Statement Concepts

Effective January 1, 2009, the accounting and disclosure requirements of the CICA's new accounting standard, *Section 3064, Goodwill and Intangible Assets*, was adopted. The standard 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. The impact of these standards is that certain items previously included in prepaid expenses which were deferred and amortized, will be expensed as period costs when incurred.

Critical Accounting Estimates

HOMEQ uses estimates to determine the amortization of the commissions, purchase price premiums and origination fees paid on the acquisition of reverse mortgages. The estimates are based on the projected lives of the mortgages for which the premiums and fees were paid. The methodology attempts to match the amortization of these amounts over the period that the mortgages earn interest income. The projected lives of the mortgages are reassessed on an annual basis.

HOMEQ also uses estimates to establish an appropriate reserve to recognize possible degradations in values of individual mortgages. These estimates are based on underwriting assumptions and place emphasis on mortgages having higher loan-to-value ratios.

There have been no changes to the methodologies used this year.

Future Accounting and Reporting Changes

International Financial Reporting Standards

The Canadian Accounting Standards Board 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.

HOMEQ has developed an IFRS implementation plan to prepare for this transition. To date, HOMEQ has established an implementation team and completed an assessment of the key areas where changes to current accounting policies may be required. Analysis will be required for all current accounting policies, however the initial key areas of assessment include:

- Financial Instruments Presentation and Disclosure
- Financial Instruments Recognition and Measurement
- Impairment of Assets (assessment methodology for Mortgages and Goodwill)
- Share-based payments
- Income Taxes
- First-time Adoption of IFRS

As the analysis of the each of the key areas progresses, other elements of our IFRS implementation plan will be addressed including the implication of changes to accounting policies, processes or financial statement note disclosures on information technology, internal controls, contractual arrangements and employee training.



The table below summarizes the expected timing of activities related to HOMEQ's transition to IFRS.

Initial analysis of key areas for which changes to accounting policies may be required.	Completed during Q1 2009
Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives.	Throughout 2009
Assessment of first-time adoption (IFRS 1) requirements and alternatives.	Throughout 2009
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	Q4 2009 – Q1 2010
Resolution of the accounting policy change implications on information technology, internal controls and contractual arrangements	Q4 2009 – Q2 2010
Management and employee education and training	Throughout the transition process
Quantification of the Financial Statement impact of changes in accounting policies	Throughout 2010

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. 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. During Q1, the spread percentage of 2.95% remained at approximately the rate achieved in Q4 2008.

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. In addition, during 2009, the difference between the rate on T-Bills and BAs has again begun to approach historical norms. As a result, spread percentage in Q2, 2009 is forecast to be with the range of 3.00% and 3.25%.

Subject to the review and approval of its application by the Office of the Superintendent of Financial Institutions and the Minister of Finance, the Trust hopes to be operating HomEquity Bank commencing in the third quarter of 2009. In the interim, specific actions to conserve its cash resources are still in place. Steps taken include the reduction of average mortgage amounts for new customers, scaling back of marketing activity and close monitoring of overhead expenditure. Until such time as HomEquity Bank becomes fully operational, these actions will result in originations being temporarily reduced. Despite strong demand, the Trust expects that originations during the second quarter will be between 50% and 60% of that in Q2 2008 and marketing costs will be reduced by the same proportion. Based solely on the steps taken to date, existing resources of cash and cash equivalents, and the expectation that mortgage repayments will remain at or near historic levels, the Trust is taking the appropriate actions to ensure that it has sufficient capital to last through 2009 under current circumstances.

ADDITIONAL INFORMATION

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

May 7, 2009

HOME EQUITY INCOME TRUST
INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands of dollars)

	As at March 31, 2009	As at December 31, 2008
	\$	\$
ASSETS		
CASH AND CASH EQUIVALENTS (Note 10)	21,207	23,569
SHORT-TERM INVESTMENTS (Note 3)	34,030	42,465
MORTGAGES (Notes 4 and 13)	879,604	868,563
PREPAID EXPENSES AND OTHER ASSETS	878	825
FUTURE INCOME TAX ASSETS (Note 5)	84	77
PROPERTY AND EQUIPMENT, net of accumulated amortization	783	656
DERIVATIVE INSTRUMENTS (Note 12)	44,594	44,680
GOODWILL	19,109	19,109
	1,000,289	999,944
LIABILITIES AND UNITHOLDERS' EQUITY		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,611	2,248
DISTRIBUTIONS PAYABLE TO UNITHOLDERS	1,123	1,228
FUTURE INCOME TAX LIABILITIES (Note 5)	14,007	13,090
MEDIUM-TERM DEBT (Notes 6, 11 and 13)	806,652	804,297
SUBORDINATED DEBT (Notes 7, 11 and 13)	60,324	60,407
DERIVATIVE INSTRUMENTS (Note 12)	5,682	7,950
UNITHOLDERS' EQUITY (Note 2)	110,890	110,724
	1,000,289	999,944

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)***(In thousands of dollars except per unit amounts)*

	For the three months ended March 31,	
	2009	2008
	\$	\$
REVENUES		
Mortgage interest (Note 4)	12,947	14,139
Mortgage closing fees, net of costs	197	161
Mortgage administration fees	25	21
Investment interest and other	157	707
	13,326	15,028
DIRECT COSTS		
Interest expense (Note 8)	8,492	9,768
Origination salaries and benefits	201	198
Mortgage servicing and administration	75	73
	8,768	10,039
OPERATING MARGIN	4,558	4,989
MARKETING	428	1,059
OVERHEAD EXPENSES		
Salaries and benefits	1,082	1,055
Professional services	878	406
Office expenses	264	308
Amortization of property and equipment	60	77
Other	116	161
	2,400	2,007
Income before under noted item	1,730	1,923
Unrealized gains on derivative instruments (Note 12)	2,271	14,306
Income before income taxes	4,001	16,229
Future income tax expense	910	3,184
NET INCOME AND TOTAL COMPREHENSIVE INCOME	3,091	13,045
UNITHOLDERS' EQUITY, beginning of period	110,724	93,912
Net proceeds from issuance of Trust units (Note 9)	106	584
Distributions declared to unitholders	(2,547)	(3,762)
Transition adjustment on adoption of financial instrument standard (Note 2)	(484)	—
UNITHOLDERS' EQUITY, end of period	110,890	103,779
AVERAGE NUMBER OF UNITS OUTSTANDING	14,153	13,981
NET INCOME PER TRUST UNIT (Basic and Diluted)	0.218	0.933

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

HOME EQUITY INCOME TRUST
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)
(In thousands of dollars)

	For the three months ended March 31,	
	2009	2008
	\$	\$
OPERATING ACTIVITIES		
Net income	3,091	13,045
Adjust for non-cash items		
Amortization		
Amortization of purchase price premiums and origination fees	894	892
Amortization of debt issue costs	295	250
Amortization of property and equipment	60	77
Amortization of deferred commissions	453	331
Compensation expense related to long-term incentive plans	107	94
Future income tax expense	910	3,184
Unrealized gains on derivative instruments	(2,271)	(14,306)
	3,539	3,567
Changes in non-cash working capital		
Accrual of interest payable on debt and derivatives	2,778	3,140
Other (Note 10)	(690)	(1,813)
	2,088	1,327
Accrual of interest on mortgages	(14,177)	(15,199)
Repayments of accrued interest	6,126	4,080
Net accrual of interest on mortgages	(8,051)	(11,119)
Cash used in operating activities	(2,424)	(6,225)
INVESTING ACTIVITIES		
Mortgages originated	(14,680)	(28,235)
Mortgage principal repayments	11,199	9,467
Commissions	(856)	(1,153)
Decrease in short-term investments, net	8,435	—
Purchase of property and equipment	(187)	(110)
Cash provided by (used) in investing activities	3,911	(20,031)
FINANCING ACTIVITIES		
Repayments of commercial paper, net	—	(7,083)
Repayment of medium-term debt	(1,197)	(25)
Capitalized debt issue costs	—	(105)
Distributions to unitholders	(2,652)	(3,770)
Proceeds from units issued under distribution reinvestment plan	—	490
Cash used in financing activities	(3,849)	(10,493)
Net decrease in cash and cash equivalents during the period	(2,362)	(36,749)
Cash and cash equivalents, beginning of period	23,569	92,516
Cash and cash equivalents, end of period (Note 10)	21,207	55,767
Supplemental cash flow information:		
Interest paid	5,419	6,322

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

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

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 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, 2008. The preparation of these unaudited interim consolidated 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**Goodwill, Intangible Assets and Financial Statement Concepts**

Effective January 1, 2009 the Canadian Institute of Chartered Accountants' ("CICA") new accounting standard, *Section 3064, Goodwill and Intangible Assets*, was adopted by the Trust. This standard 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. The new guidance did not have a material effect on the financial position or the earnings of the Trust.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 20, 2009 the CICA's Emerging Issues Committee *EIC-173 Abstract, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* was adopted by the Trust. This EIC was released due to mixed practice on whether an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of a derivative instrument. The EIC requires the inclusion of credit risk of the counterparty and the Trust in determining the fair value of derivative instruments. The EIC requires retrospective adoption without restatement of prior periods.

Under this new guidance, the Trust has recorded an adjustment to decrease unitholders' equity by \$484 for the period ended March 31, 2009. The adjustment is related solely to the recognition of credit risk on the fair value of derivative instruments as at December 31, 2008.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of treasury bills, term deposits and corporate notes, which have maturities greater than 90 days from the date of acquisition. The maturity dates of these short-term investments range from April 2009 to May 2009. The yield on these investments ranges between 1.1% and 1.9% with a weighted average rate of 1.6% (December 31, 2008 – 2.0%).

	Due in 1 year or less	Due after 1 year	Carrying value as at March 31, 2009	December 31, 2008
Treasury bills and term deposits	\$ 31,961	—	\$ 31,961	\$ 32,916
Corporate notes	2,069	—	2,069	9,549
	34,030	—	34,030	42,465

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

4. MORTGAGES

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

	March 31, 2009	December 31, 2008
	\$	\$
Mortgage principal plus accrued interest	825,727	814,195
Mortgage purchase price premiums, net of accumulated amortization	36,003	36,839
Mortgage origination fees, net of accumulated amortization	2,480	2,538
Deferred commissions, net of accumulated amortization	15,802	15,399
Less: portfolio reserves	(408)	(408)
	879,604	868,563

Mortgages with a loan-to-value ratio of greater than 83% at March 31, 2009 totaled \$702 (December 31, 2008 - \$556) and the appraised value of the underlying properties was \$846 (December 31, 2008 - \$670).

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

	For the three month period ended March 31,	
	2009	2008
	\$	\$
Interest income	14,177	15,199
Early repayment fees	117	162
Less: Amortization of deferred commissions	(453)	(330)
Amortization of purchase price premiums and origination costs	(894)	(892)
	12,947	14,139

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	March 31, 2009	December 31, 2008
	\$	\$
Property and equipment	36	39
Non-capital loss carry forwards	48	38
	84	77

The future income taxes of the non-capital losses carried forward represent 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 March 31, 2009, the Trust's subsidiaries had non-capital losses carried forward of \$149. The non-capital losses expire as follows: 2010-\$50, 2014-\$42, 2015-\$22 and 2029-\$35.

Future Income Tax Liabilities	March 31, 2009	December 31, 2008
	\$	\$
Mortgages	7,082	6,839
Derivative instruments	6,925	6,251
	14,007	13,090

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

5. FUTURE INCOME TAXES (Continued)

In June 2007 new legislation was enacted 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. Subsequent to June 2007 and prior to December 31, 2008, the Trust estimated the effective tax rate on the reversal of these temporary differences in 2011 to be 29.5% and post 2011 to be 28%. On March 12, 2009, new regulations were enacted to apply a "general corporate income tax rate" to income trusts. As a result, at March 31, 2009, the Trust estimates the effective tax rate on reversal of temporary differences in 2011 to be 30.5% and post 2011 to be 29%. 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.

The Trust's tax provision relates to income earned in the Trust's corporate subsidiaries and the impact of the taxes estimated to be paid by the Trust after 2010.

6. MEDIUM-TERM DEBT

The following table summarizes the medium-term debt outstanding as at March 31, 2009.

Series	Expected final payment	Interest basis	Interest rate at March 31, 2009	March 31, 2009	Fair market value	December 31, 2008
				\$	\$	\$
2007-1	Nov 1, 2009	Fixed rate	5.407%	150,000	151,102	150,000
2005-1	Nov 1, 2010	Fixed rate	4.296%	110,000	109,490	110,000
2007-3	May 2, 2011	Fixed rate	5.613%	125,000	126,261	125,000
2008-1	May 16, 2011	Fixed rate	5.764%	165,000	166,510	165,000
2006-3	Aug 1, 2012	Fixed rate	4.542%	115,000	111,035	115,000
2006-1	Feb 1, 2013	Fixed rate	4.637%	105,000	99,094	105,000
2007-2	Apr 15, 2013	Floating rate ⁽¹⁾	3.941%	17,989	17,029	19,186
				787,989	780,521	789,186
				13,533		8,722
				324		1,251
				(2,048)		(1,053)
				(1,902)		(2,169)
				8,756		8,360
				806,652		804,297

(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. Fair value of medium-term debt is determined using average quoted market rates provided to the Trust by capital market dealers.

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

7. SUBORDINATED DEBT

The following table summarizes the subordinated debt outstanding as at March 31, 2009.

Series	Expected final payment	Interest basis	Interest rate at March 31, 2009	March 31, 2009	Fair market value	December 31, 2008
				\$	\$	\$
2007-1B	Nov 1, 2012	Fixed rate	6.663%	20,000	19,703	20,000
2007-2B	Apr 15, 2013	Fixed rate	7.582%	20,000	20,356	20,000
2006-2B	Aug 1, 2013	Fixed rate	5.803%	20,000	18,820	20,000
				60,000	58,879	60,000
Interest payable				873		830
Interest receivable on derivative instruments				(224)		(70)
Debt issue costs, net of accumulated amortization				(325)		(353)
				60,324		60,407

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. Fair value of subordinated debt is determined using average quoted market rates provided to the Trust by capital market dealers.

8. INTEREST EXPENSE

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

	For the three month period ended	
	2009	2008
	\$	\$
Interest on commercial paper and liquidity line ⁽¹⁾	—	759
Interest on medium-term notes ⁽²⁾	7,355	7,737
Interest on subordinated debt ⁽²⁾	842	969
Commercial paper expenses ⁽¹⁾	—	53
Amortization of debt issue costs	295	250
	8,492	9,768

(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.

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

9. UNITHOLDERS' EQUITY

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

	Number of units	Proceeds
Balance, December 31, 2007	13,933,047	\$
Units issued under distribution reinvestment plan	148,456	1,169
Units earned and granted under the long-term incentive plans ⁽¹⁾	42,046	443
	190,502	1,612
Balance, December 31, 2008	14,123,549	
Units earned and granted under the long-term incentive plans ⁽¹⁾	68,198	106
	68,198	106
Balance, March 31, 2009	14,191,747	

(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 March 31, 2009, 191,920 restricted units have been issued since the inception of the plan and 85,449 units remain within the plan of which 4,000 have vested.

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 March 31, 2009, the Trustees have earned 103,460 units under the DUP.

For the period ending March 31, 2009, Trustees fees and executive compensation expense under the long-term incentive plans was \$107 (March 31, 2008 - \$94).

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.

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

10. CONSOLIDATED STATEMENTS OF CASH FLOW

Net change in Other non-cash working capital balances is detailed as follows:

	March 31, 2009	March 31, 2008
	\$	\$
Prepaid expenses	(53)	(19)
Accounts payable and accrued liabilities	(637)	(1,794)
	(690)	(1,813)

Cash and cash equivalents at the balance sheet dates are comprised of the following:

	March 31, 2009	December 31, 2008
	\$	\$
Cash	6,221	6,087
Cash equivalents	14,986	17,482
	21,207	23,569

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, short-term investments, 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 current capital market conditions the Trust continues to carry significant cash balances 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 its wholly owned subsidiary, CHIP Mortgage Trust's mortgage portfolio value. At March 31, 2009, the senior debt-to-mortgage ratio was 89.0%, the total debt-to-mortgage ratio was 96.1% and the Trust held more than the required amount of cash. The Trust closely monitors business performance to manage compliance with these covenants. The Trust continues to focus 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 DRIP up to July 2008. 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 March 31, 2009 was approximately \$1.1 billion (December 31, 2008, \$1.1 billion).

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

March 31, 2009

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 are 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 sheets.

The following table summarizes the fair values, notional principal and weighted average rates of the derivative instruments outstanding as at March 31, 2009. The floating rate for all instruments is based on the CDOR-BA rate for terms ranging from one to twelve months.

	Weighted average rate		Notional principal		Fair values	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
Interest rate contracts						
Receive fixed			\$		\$	\$
Swaps	4.231%	4.223%	800,000	815,000	44,538	44,511
Forward Rate Agreements	2.740%	2.764%	10,000	40,000	56	169
ASSETS			810,000	855,000	44,594	44,680
Pay fixed						
Swaps	3.545%	3.904%	133,000	127,000	5,284	7,465
Forward Rate Agreements	2.175%	2.283%	96,000	136,000	398	485
LIABILITIES			229,000	263,000	5,682	7,950

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12. DERIVATIVE INSTRUMENTS (Continued)
Maturity Terms

The following table summarizes the notional principal and fair value by term to maturity of derivative instruments outstanding as at March 31, 2009. Maturity dates range from May 2009 to May 2014.

	Remaining term to maturity				March 31,	December 31,
	Within 1	1 to 3	3 to 5	Over 5	2009	2008
	year	years	years	years	Total	Total
Notional principal						
Swaps	150,000	394,000	256,000	—	800,000	815,000
Forward rate agreements	10,000	—	—	—	10,000	40,000
Derivative assets	160,000	394,000	256,000	—	810,000	855,000
Derivative liabilities						
Swaps	15,000	75,000	33,000	10,000	133,000	127,000
Forward rate agreements	96,000	—	—	—	96,000	136,000
Derivative liabilities	111,000	75,000	33,000	10,000	229,000	263,000
Fair Values						
Swaps	1,697	20,775	22,066	—	44,538	44,511
Forward rate agreements	56	—	—	—	56	169
Derivative assets	1,753	20,775	22,066	—	44,594	44,680
Derivative liabilities						
Swaps	35	2,908	2,253	88	5,284	7,465
Forward rate agreements	398	—	—	—	398	485
Derivative liabilities	433	2,908	2,253	88	5,682	7,950

Fair Value Hedges

The Trust's fair value hedges 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 (gains) losses 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.

Hedge Accounting Results

During 2008, the Trust entered into interest rates swaps having a notional amount of \$159,000, to hedge \$159,000 of the \$165,000 fixed rate medium-term debt issued during that year. 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 Trust elected under Section 3865 – *Hedges* to apply hedge accounting for these interest rate swaps.

The hedges are effective at March 31, 2009. The fair value of these swaps is positive \$8,274 at March 31, 2009 (March 31, 2008 – nil) and is recorded as derivative instruments asset on the balance sheet. The Trust has recorded \$8,274 of change in fair value of the derivative to unrealized gains 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 gains on derivative instruments in the consolidated statements of operations and unitholders' equity (See Note 6). A loss of \$481 arising from hedge ineffectiveness was recorded during the period ended March 31, 2009 (March 31, 2008 – nil).

12. DERIVATIVE INSTRUMENTS (Continued)**Derivative – related risks****Market risk**

Derivative instruments have either no or an insignificant 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 foregoing 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. The Trust's exposure to risks arising from other financial instruments is disclosed in Note 13.

13. FINANCIAL INSTRUMENTS – FINANCIAL RISKS**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 property appreciation of up to 0.5% per annum is currently assumed for the life of the mortgage, in comparison with the Canadian average of approximately over 3.17% for the past 20 years. The average rate of assumed appreciation used in the initial underwriting of the existing mortgage portfolio is 1.60%. Each mortgage originated is limited in maximum dollar amount and loan-to-value ratio 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 \$2.3 billion.

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13. FINANCIAL INSTRUMENTS – FINANCIAL RISKS (Continued)

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

Mortgage portfolio – by loan-to-value	Dollar Volume		Percentage	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
	\$	\$	%	%
Less than 30.0%	171,451	171,280	20.8	21.0
30.1% - 40.0%	227,493	225,849	27.6	27.7
40.1% - 50.0%	226,804	226,884	27.5	27.9
50.1% - 60.0%	131,698	130,057	15.9	16.0
60.1% - 70.0%	57,881	53,018	7.0	6.5
Greater than 70.1%	10,400	7,107	1.2	0.9
	825,727	814,195	100.0	100.0

Mortgage portfolio – by province	Dollar Volume		Percentage	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
	\$	\$	%	%
Ontario	350,978	348,891	42.5	42.9
British Columbia	300,001	296,758	36.3	36.4
Alberta	97,057	94,274	11.8	11.6
Quebec	47,166	44,606	5.7	5.5
Other	30,525	29,666	3.7	3.6
	825,727	814,195	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 and interest payable:

	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	March 31, 2008 Total	December 31, 2008 Total
	\$	\$	\$	\$	\$	\$
Interest payable on medium-term debt	13,533	—	—	—	13,533	8,722
Interest payable on subordinated debt	873	—	—	—	873	830
Interest payable on derivative instruments	324	—	—	—	324	1,251
Debt principal ⁽¹⁾						
Medium-Term Debt	150,000	110,000	527,989	—	787,989	789,186
Subordinated Debt	—	—	60,000	—	60,000	60,000
Total	164,730	110,000	587,989	—	862,719	859,989

(1) Certain tranches of debt have refinancing terms upon their expected final payment dates. See notes 6 and 7.

HOME EQUITY INCOME TRUST**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)***(In thousands of dollars except unit amounts)*

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13. FINANCIAL INSTRUMENTS – FINANCIAL RISKS – (Continued)**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 move the fixed rate on the debt to match the rate reset terms 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 approximately 91 percent of 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	4,129	4,240
50 basis point decrease	(4,129)	(4,240)

These sensitivities are hypothetical and should be used with caution.

14. FUTURE CHANGES IN ACCOUNTING POLICIES**International Financial Reporting Standards**

The CICA will transition Canadian GAAP for publicly accountable entities to International Financial Reporting Standards (IFRS). The Trust's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Trust's consolidated financial statements is not yet determinable.

15. SUBSEQUENT EVENT

At the April 30, 2009 annual and special general meeting, the Trust's unitholders voted in favour of converting the Trust to a taxable corporation under a Court approved plan of arrangement. The Trust anticipates that the conversion will be completed on a tax-free rollover basis for Canadian residents. The conversion is part of the Trust's plan to continue its operating subsidiary, Canadian Home Income Plan Corporation (CHIP), as a federally-regulated, Schedule I Canadian bank. Continuing CHIP as a bank is subject to the review and approval of an application to the Minister of Finance. The Trust has been advised by the Office of the Superintendent of Financial Institutions that under current federal policy, the bank application will not be considered by the Minister until the conversion of the Trust to a corporate structure has been completed. The conversion will be completed when all necessary conditions are satisfied and the Trust's board believes that the bank application is likely to be approved. Management expects the Conversion to take effect before the end of the second quarter. The arrangement agreement governing the conversion provides that it will terminate if the conversion is not completed by October 31, 2009, unless the parties thereto agree otherwise.

The Trust's unitholders also voted in favour of increasing the maximum number of units that may be issued under the RUP to 350,000 and under the DUP to 500,000 at the annual and special meeting.

16. COMPARATIVE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The comparative interim consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 interim consolidated financial statements.

**FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE**

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

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Home Equity Income Trust, (the “issuer”) for the interim period ended March 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, 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, for the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, 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 of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer, is made known to us by others, particularly during the period in which the interim filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, 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.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer(s) and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 **ICFR – material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A
6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2009 and ended on March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

May 7, 2009



President and Chief Executive Officer

**FORM 52-109F2
CERTIFICATION OF INTERIM FILINGS
FULL CERTIFICATE**

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

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Home Equity Income Trust, (the “issuer”) for the interim period ended March 31, 2009.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, 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, for the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, 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 of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
 - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
 - (i) material information relating to the issuer, is made known to us by others, particularly during the period in which the interim filings are being prepared; and
 - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
 - (b) designed ICFR, 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.
- 5.1 **Control framework:** The control framework the issuer’s other certifying officer(s) and I used to design the issuer’s ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5.2 **ICFR – material weakness relating to design:** N/A
- 5.3 **Limitation on scope of design:** N/A
6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer’s ICFR that occurred during the period beginning on January 1, 2009 and ended on March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the issuer’s ICFR.

May 7, 2009



Senior Vice President and Chief Financial Officer

CORPORATE INFORMATION

REGISTRAR AND TRANSFER AGENT

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For any inquiries please call:
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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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Senior Vice President and Chief Financial Officer

or

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Vice President, Finance



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