



**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

**For the three month period ended
March 31, 2010**

HOMEQ CORPORATION
Interim Consolidated Balance Sheets (Unaudited)

As at	March 31 2010 \$	December 31 2009 \$	March 31 2009 \$
(in thousands of dollars)			
ASSETS			
Cash resources (note 3)			
Cash and cash equivalents	22,183	14,516	21,207
Interest bearing deposits with banks	3,498	21,972	16,979
	25,681	36,488	38,186
Securities (note 4)			
Held-for-trading	5,698	12,192	17,051
Loans (note 5)			
Residential reverse mortgages	958,671	919,573	880,153
Allowance for credit losses	(2,613)	(2,412)	(549)
	956,058	917,161	879,604
Other			
Derivative instruments (note 14)	25,043	28,544	44,594
Property and equipment, net of accumulated amortization	616	659	573
Goodwill and other intangible assets (note 6)	19,907	19,956	19,585
Future income tax assets (note 7)	612	594	84
Prepaid expenses and other assets	933	969	612
	47,111	50,722	65,448
	1,034,548	1,016,563	1,000,289
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits (note 8 and 14)			
Payable on a fixed date	97,989	40,093	—
	97,989	40,093	—
Other			
Derivative instruments (note 14)	2,771	3,347	5,682
Future income tax liabilities (note 7)	11,710	12,542	14,007
Income taxes payable	866	1,873	—
Dividends payable	980	980	1,123
Accounts payable and accrued liabilities	2,474	3,939	1,611
	18,801	22,681	22,423
Medium-term debt (notes 9, 13 and 14)	757,147	792,328	806,652
Subordinated debt (notes 10, 13 and 14)	50,025	50,335	60,324
Unsecured subordinated debt (notes 11 and 13)	10,390	10,144	—
	817,562	852,807	866,976
	934,352	915,581	889,399
Shareholders' equity / Unitholders' equity			
Common shares (notes 1 and 12)	102,909	102,794	110,890
Deficit	(2,713)	(1,812)	—
	100,196	100,982	110,890
	1,034,548	1,016,563	1,000,289

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

HOMEQ CORPORATION
Interim Consolidated Statements of Income (Unaudited)

For the three month period ended	March 31 2010 \$	December 31 2009 \$	March 31 2009 \$
(in thousands of dollars)			
Interest income			
Mortgage interest (note 5)	10,813	11,257	12,920
Securities	9	11	103
Deposits with banks	39	5	54
	10,861	11,273	13,077
Interest expense			
Deposits	393	133	—
Medium-term debt	4,272	4,691	7,622
Subordinated debt	643	684	870
Unsecured subordinated debt	247	186	—
	5,555	5,694	8,492
Net interest income	5,306	5,579	4,585
Provision (recovery) for credit losses (note 5)	201	39	(23)
Net interest income after provision for credit losses	5,105	5,540	4,608
Non-interest income			
Mortgage administration fees	19	40	25
	19	40	25
Net interest income and non-interest income	5,124	5,580	4,633
Non-interest expenses			
Salaries and benefits (note 17)	1,278	1,545	1,129
Selling, general and administration (note 18)	1,675	1,664	1,714
Amortization of intangible assets	50	42	16
Amortization of property and equipment	52	49	44
	3,055	3,300	2,903
Income before under noted item	2,069	2,280	1,730
Unrealized losses (gains) on derivative instruments (note 14)	1,971	3,819	(2,271)
Income (loss) before income taxes	98	(1,539)	4,001
Current income tax expense	869	900	—
Future income tax expense (recovery)	(850)	(2,784)	910
Provision (recovery) for income taxes	19	(1,884)	910
Net income and total comprehensive income	79	345	3,091
Average number of common shares outstanding (note 1)	14,260	14,239	14,153
Basic and diluted earnings (loss) per share (note 1)	\$0.01	\$0.02	\$0.22

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

HOMEQ CORPORATION**Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

For the three month period ended	March 31	December 31	March 31
(in thousands of dollars)	2010	2009	2009
	\$	\$	\$
Common shares			
Balance at beginning of period	102,794	102,682	—
Issued during the period	115	112	—
Balance at end of period	102,909	102,794	—
Unitholders' equity			
Balance at beginning of period	—	—	110,724
Issued during the period	—	—	106
Transition adjustment on adoption of financial instruments standard	—	—	(484)
Net income for the period	—	—	3,091
Dividends declared	—	—	(2,547)
Balance at end of period	—	—	110,890
Deficit			
Balance at beginning of period	(1,812)	(197)	—
Net income for the period	79	345	—
Dividends declared	(980)	(1,960)	—
Balance at end of period	(2,713)	(1,812)	—
Total Shareholders' equity / Unitholders' equity (note 1)	100,196	100,982	110,890

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

HOMEQ CORPORATION
Interim Consolidated Statements of Cash Flows (Unaudited)

For the three month period ended	March 31 2010 \$	December 31 2009 \$	March 31 2009 \$
(in thousands of dollars)			
OPERATING ACTIVITIES			
Net income	79	345	3,091
Adjust for non-cash items			
Amortization			
Purchase price premiums and origination fees	849	866	894
Deferred origination commissions and mortgage fees and costs	569	535	453
Deferred deposit commissions	34	11	—
Debt issue costs	452	342	295
Intangible assets	50	42	16
Property and equipment	52	49	44
Increase (decrease) in provision for credit losses	201	39	(23)
Compensation expense related to long-term incentive plans	115	112	107
Future income tax expense (recovery)	(850)	(2,784)	910
Unrealized losses (gains) on derivative instruments	1,971	3,819	(2,271)
	3,522	3,376	3,516
Changes in non-cash working capital			
Accrual of interest payable on debt and derivatives	838	(4,861)	2,778
Accrual of interest on mortgages	(12,037)	(12,359)	(14,154)
Repayments of accrued interest	6,169	9,415	6,126
Other (note 19)	(2,436)	2,339	(690)
	(7,466)	(5,466)	(5,940)
Cash used in operating activities	(3,944)	(2,090)	(2,424)
INVESTING ACTIVITIES			
Mortgages originated	(47,260)	(43,364)	(14,680)
Mortgage principal repayments	13,819	17,877	11,199
Origination commissions and deferred mortgage fees and costs	(1,207)	(1,634)	(856)
Decrease (increase) in securities, net	6,494	(12,192)	7,451
Decrease (increase) in interest bearing deposits with banks, net	18,474	(4,825)	984
Purchase of intangible assets	—	(153)	(170)
Purchase of property and equipment	(9)	(157)	(17)
Cash provided by (used in) investing activities	(9,689)	(44,448)	3,911
FINANCING ACTIVITIES			
Increase in deposits	58,222	40,412	—
Increase in deposit broker commissions	(311)	(246)	—
Gross proceeds from medium-term debt	—	150,000	—
Repayment of medium-term debt	(1,231)	(151,151)	(1,197)
Repurchase of medium-term debt	(34,400)	—	—
Repurchase of subordinated debt	—	(10,000)	—
Gross proceeds from unsecured subordinated debt	—	10,000	—
Increase in debt issue costs	—	(599)	—
Dividends	(980)	(981)	(2,652)
Cash provided by (used in) financing activities	21,300	37,435	(3,849)
Net increase (decrease) in cash and cash equivalents, during the period	7,667	(9,103)	(2,362)
Cash and cash equivalents, beginning of period	14,516	23,619	23,569
Cash and cash equivalents, end of period (note 3)	22,183	14,516	21,207
Supplemental cash flow information:			
Interest paid	3,565	10,094	5,419
Income taxes paid	1,875	—	—

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

HOMEQ CORPORATION
Notes to Interim Consolidated Financial Statements
For the three month period ended March 31, 2010
(in thousands of dollars except per share amounts)

1. ORGANIZATION AND BASIS OF PRESENTATION

HOMEQ Corporation (the Company) was incorporated on March 10, 2009 under the laws of the Province of Ontario. The Company is a holding company which invests in its wholly owned subsidiary, HomeEquity Bank (formerly Canadian Home Income Plan Corporation), which originates and administers reverse mortgages.

On June 30, 2009, Home Equity Income Trust (the Trust) converted to a corporation, by way of a Plan of Arrangement continuing its business operations as HOMEQ Corporation (the Conversion). The Company continues the business of the Trust. Under the Conversion, the unitholders of the Trust exchanged each of their trust units for common shares of the Company, on a one-for-one basis. All references to "shares" refer collectively to common shares subsequent to the Conversion and to trust units prior to the Conversion. All references to "dividends" refer collectively to payments to shareholders subsequent to Conversion and to payments to unitholders prior to the Conversion. These interim consolidated financial statements of the Company have been prepared using the continuity of interest method for the assets, liabilities and operations of the Trust.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read together with the Company's audited annual consolidated financial statements and accompanying notes included in the Company's Annual Report for the year ended December 31, 2009. 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. ACCOUNTING CHANGES

There were no accounting changes during the period ended March 31, 2010.

3. CASH RESOURCES

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Cash and non-interest bearing deposits with banks	22,183	8,218	6,221
Treasury bills issued or guaranteed by provinces	—	6,298	—
Corporate notes	—	—	14,986
Cash and cash equivalents	22,183	14,516	21,207
Interest bearing deposits with banks	3,498	21,972	16,979
Total cash resources	25,681	36,488	38,186

4. SECURITIES

For the period ended March 31, 2010, the yield on these investments ranges between 0.24% and 0.53% with a weighted average rate of 0.30% (December 31, 2009 – 0.27%, March 31, 2009 – 1.60%).

	Remaining term to maturity			March 31 2010	December 31 2009	March 31 2009
	Within 1 year	1 to 5 years	Over 5 years			
	\$	\$	\$	\$	\$	\$
Treasury bills issued or guaranteed by Canada	3,999	—	—	3,999	3,996	13,482
Treasury bills issued or guaranteed by provinces	—	—	—	—	6,499	1,499
Other debt securities	1,699	—	—	1,699	1,697	2,070
	5,698	—	—	5,698	12,192	17,051

HOMEQ CORPORATION
Notes to Interim Consolidated Financial Statements
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(in thousands of dollars except per share amounts)

5. LOANS

Residential reverse mortgages

	March 31 2010	December 31 2009	March 31 2009
Mortgage principal plus accrued interest	\$ 904,968	\$ 865,659	\$ 825,868
Mortgage purchase price premiums, net of accumulated amortization	32,781	33,572	36,003
Mortgage origination fees, net of accumulated amortization	2,247	2,305	2,480
Deferred commissions and mortgage fees and costs, net of accumulated amortization	18,675	18,037	15,802
	958,671	919,573	880,153

Geographic region and loan-to-value

The following tables show the composition of the residential reverse mortgage portfolio by geographic distribution and loan-to-value ratio range, which measures the outstanding mortgage balance as a percentage of the appraised value of the property:

Province	March 31 2010	December 31 2009	March 31 2009	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$	%	%	%
Ontario	370,051	357,338	351,119	40.9	41.3	42.5
British Columbia	325,160	312,428	300,001	35.9	36.1	36.3
Alberta	111,161	105,770	97,057	12.3	12.2	11.8
Quebec	60,532	54,389	47,166	6.7	6.3	5.7
Other	38,064	35,734	30,525	4.2	4.1	3.7
	904,968	865,659	825,868	100.0	100.0	100.0

Loan-to-value	March 31 2010	December 31 2009	March 31 2009	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$	%	%	%
Less than 30.0%	174,860	173,715	171,451	19.3	20.1	20.8
30.1% - 40.0%	254,859	242,436	227,493	28.2	28.0	27.5
40.1% - 50.0%	258,486	246,051	226,804	28.6	28.4	27.5
50.1% - 60.0%	142,103	135,881	131,698	15.7	15.7	15.9
60.1% - 70.0%	58,126	54,820	57,881	6.4	6.3	7.0
Greater than 70.1%	16,534	12,756	10,541	1.8	1.5	1.3
	904,968	865,659	825,868	100.0	100.0	100.0

Impaired loans

The following table shows residential reverse mortgages with a loan-to-value ratio of greater than 83%, which management considers being impaired and the appraised value of those underlying properties:

	March 31 2010	December 31 2009	March 31 2009
Mortgage principal plus accrued interest	\$ 2,287	\$ 1,755	\$ 843
Specific allowance	(315)	(263)	(141)
	1,972	1,492	702
Appraised value of underlying properties	2,376	1,798	846

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(in thousands of dollars except per share amounts)

5. LOANS (continued)

Allowance for credit losses

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Specific allowances			
Balance, beginning of period	(263)	(164)	(164)
Provision for credit losses	(78)	(171)	23
Write-offs	26	70	—
Recoveries	—	2	—
Balance, end of period	(315)	(263)	(141)
General allowances			
Balance, beginning of period	(2,149)	(408)	(408)
Provision for credit losses	(149)	(1,741)	—
Balance, end of period	(2,298)	(2,149)	(408)
Total allowances	(2,613)	(2,412)	(549)

Mortgage interest

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Interest income	12,037	12,359	14,154
Early repayment fees	194	242	117
	12,231	12,601	14,271
Less:			
Amortization of deferred commissions and mortgage fees and costs, net	569	478	457
Amortization of purchase price premiums and origination costs	849	866	894
	1,418	1,344	1,351
	10,813	11,257	12,920

6. GOODWILL AND OTHER INTANGIBLE ASSETS

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Goodwill	19,109	19,109	19,109
Bank license costs	427	427	266
Software – amortized (1)	371	420	210
	19,907	19,956	19,585

(1) Software had a cost of \$558 and accumulated amortization of \$187.

HOMEQ CORPORATION
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7. INCOME TAXES

Components of future income tax balances

	March 31 2010	December 31 2009	March 31 2009
Future income tax assets	\$	\$	\$
Property and equipment	15	14	36
Non-capital losses	—	—	48
Allowance for credit losses	597	580	—
	612	594	84
Future income tax liabilities			
Mortgages	7,198	7,367	7,082
Derivative instruments	4,568	5,172	6,925
Debt issue and deferred costs	(56)	3	—
	11,710	12,542	14,007

8. DEPOSITS

All deposits are payable on a fixed date and are issued in Canada.

	Maturity term				December 31 2009	March 31 2009
	Within 1 year	2 to 3 years	4 to 5 years	March 31 2010		
	\$	\$	\$	\$	\$	\$
Individuals	37,569	33,430	27,124	98,123	40,177	—
Adjustment in carrying value of hedged deposits (see note 14)	—	(56)	(78)	(134)	(84)	—
	37,569	33,374	27,046	97,989	40,093	—
Effective interest rate	1.25%	2.37%	3.33%	2.21%	2.22%	—

9. MEDIUM-TERM DEBT

Series	Expected final payment	Interest basis	Interest rate	Fair value	March 31 2010	December 31 2009	March 31 2009
				\$	\$	\$	\$
2007-1	Nov 1, 2009	Fixed rate	—	—	—	—	150,000
2009-1	Oct 26, 2010	Floating rate (1)	1.838%	120,331	120,000	150,000	—
2005-1	Nov 1, 2010	Fixed rate	4.296%	107,437	105,600	110,000	110,000
2007-3	May 2, 2011	Fixed rate	5.613%	129,483	125,000	125,000	125,000
2008-1	May 16, 2011	Fixed rate	5.764%	171,352	165,000	165,000	165,000
2006-3	Aug 1, 2012	Fixed rate	4.542%	118,712	115,000	115,000	115,000
2006-1	Feb 1, 2013	Fixed rate	4.637%	107,933	105,000	105,000	105,000
2007-2	Jun 15, 2013	Floating rate (2)	1.583%	12,890	12,884	14,115	17,989
				768,138	748,484	784,115	787,989
Interest payable					10,441	7,858	13,533
Interest payable on derivative instruments					—	—	324
Interest receivable on derivative instruments					(5,604)	(3,954)	(2,048)
Debt issue costs, net of accumulated amortization					(1,194)	(1,614)	(1,902)
Adjustment in carrying value of hedged debt (see note 14)					5,020	5,923	8,756
					757,147	792,328	806,652

(1) Rate is reset on the 26th day of January, April and July 2010 based on the three-month bankers acceptance rate plus 1.40%

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

HOMEQ CORPORATION
Notes to Interim Consolidated Financial Statements
For the three month period ended March 31, 2010
(in thousands of dollars except per share amounts)

9. MEDIUM-TERM DEBT (continued)

The Company has a best efforts obligation to refinance the series 2006-3, 2007-3, 2008-1 and 2009-1 notes on the respective expected final payment dates. If a note remains outstanding after the expected final payment date, the interest will become the one-month Bankers' Acceptance rate plus the following spreads calculated and payable monthly: 2006-3 – 1.25%, 2007-3 – 3.00%, 2008-1 – 4.00% and 2009-1 – 3.00% until legal maturity. The series 2007-1 notes were repaid on November 1, 2009. The legal maturity dates of these notes range from August 1, 2031 to October 26, 2034. Fair value of medium-term debt is determined using average quoted market rates provided to the Company by capital markets dealers. During the period ended March 31, 2010, the Company repurchased \$4,400 and \$30,000 of the series 2005-1 and series 2009-1 medium-term notes respectively. Included in medium-term debt interest expense is a net cost of \$289 related to these transactions consisting of a loss of \$308 and \$69 of amortized debt issue costs, offset by a gain of \$88 on the reduction of notional principal of a related interest rate swap.

10. SUBORDINATED DEBT

Series	Expected final payment	Interest basis	Interest rate	Fair value	March 31 2010	December 31 2009	March 31 2009
				\$	\$	\$	\$
2007-1B	Nov 1, 2012	Fixed rate	6.663%	10,070	10,000	10,000	20,000
2007-2B	Jun 15, 2013	Fixed rate	7.582%	20,851	20,000	20,000	20,000
2006-2B	Aug 1, 2013	Fixed rate	5.803%	19,354	20,000	20,000	20,000
				50,275	50,000	50,000	60,000
					596	719	873
					(358)	(143)	(224)
					(213)	(241)	(325)
					50,025	50,335	60,324

The Company 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 payment date, the interest will become the one-month Bankers' Acceptance rate plus the following spreads calculated and payable monthly: 2006-2B – 1.75% and 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. On October 23, 2009, the Company repurchased \$10,000 of series 2007-1B at par with the proceeds of the unsecured subordinated debt (see note 11). Fair value of subordinated debt is determined using average quoted market rates provided to the Company by capital markets dealers.

11. UNSECURED SUBORDINATED DEBT

Maturity	Interest basis	Interest rate	Fair value	March 31 2010	December 31 2009	March 31 2009
			\$	\$	\$	\$
Oct 31, 2014	Fixed rate	9.713%	10,170	10,000	10,000	—
				426	183	—
				(36)	(39)	—
				10,390	10,144	—

Fair value of the unsecured subordinated debt is determined using quoted market rates provided to the Company by a capital markets dealer.

HOMEQ CORPORATION
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(in thousands of dollars except per share amounts)

12. SHARE CAPITAL

A summary of the changes to the Company's share capital pursuant to the Conversion from an income trust to a corporation is as follows:

Share capital

Authorized: An unlimited number of common shares

Issued share capital / Trust Units	March 31 2010		December 31 2009		March 31 2009	
	Number of shares	Amount \$	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of period (1)	14,239,041	102,794	14,228,727	102,682	14,123,549	
Shares earned and granted under the long-term incentive plans (2)	40,082	115	10,314	112	68,198	106
Balance, end of period (3)	14,279,123	102,909	14,239,041	102,794	14,191,747	

(1) On June 30, 2009 14,215,433 Trust units were converted to HOMEQ Corporation shares.

(2) Includes vested, non-vested and cancelled shares.

(3) Includes 74,399 restricted shares issued under the Restricted Share Plan and 162,308 deferred shares issued under the Deferred Share Plan.

The Company has two long-term incentive plans: a Restricted Share Plan (RSP) for management and a Deferred Share Plan (DSP) for Directors. Prior to Conversion these plans were unit plans. Upon Conversion, the entitlements to units under the plans were converted to entitlements to an equivalent number of shares, and will continue to be held subject to the terms and conditions of their grant, with no change to the applicable vesting schedules.

A restricted share granted through the RSP entitles the holder to receive, on the vesting date, a share plus the amount of dividends that would have been paid on the shares respectively if the share had been issued on the date of grant. Subject to the achievement of performance conditions, if any, restricted shares vest equally over three years and the total cost of the grant is recognized over the vesting period. As at March 31, 2010, 220,620 restricted shares have been issued since the inception of the plan and 74,399 shares remain within the plan, none of which have vested. For the period ended March 31, 2010 28,700 restricted shares have been issued (December 31, 2009 – nil, March 31, 2009 – 55,000).

The non-employee Directors may elect to receive their compensation in whole or in part in the form of deferred shares under the DSP in lieu of cash compensation. On retiring from the Board, a Director will receive all deferred shares accumulated in the plan. The maximum number of shares that may be issued under the DSP is limited to 500,000. As at March 31, 2010, the Directors have earned 162,308 shares under the DSP. For the period ended March 31, 2010 11,555 deferred shares have been issued (December 31, 2009 – 10,314, March 31, 2009 – 13,198).

During the period ended March 31, 2010, the Board approved a third long term incentive plan, subject to shareholder approval at the annual general meeting on May 13, 2010. This new plan, the Option and Share Appreciation Rights Plan was established to reinforce the alignment of interests between key executives and shareholders, reward achievement of shareholder value creation and provide competitive compensation opportunities to enable the Company to attract, retain and motivate leaders that are critical to the long-term success of the Company. In March 2010, subject to shareholder approval of the plan, 82,000 stock options were granted at an exercise price of \$7.21. These stock options have a term of seven years and vest equally over three years.

For the period ending March 31, 2010, Directors fees and executive compensation expense under the long-term incentive plans was \$115 (December 31, 2009 – \$112, March 31, 2009 – \$106). The Company intends to settle the restricted and deferred shares in shares of the Company upon vesting and retirement, respectively. Until such time, these shares do not trade on the Toronto Stock Exchange, have no voting rights and cannot be sold or liquidated early.

HOMEQ CORPORATION
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(in thousands of dollars except per share amounts)

13. CAPITAL MANAGEMENT

The overall objective of capital management is to ensure that the Company has sufficient capital to maintain its operations based on current activities and expected business developments in the future and to provide a return to shareholders commensurate with the risk of the business and comparable to other similar companies.

The Company's capital resources consist of retail deposits, senior debt, consisting of medium-term notes, subordinated debt, unsecured subordinated debt and issued Company shares. Historically, the Company has used cash flows from operating activities to fund its 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.

The Company's subsidiary, HomEquity Bank, received its Letters Patent and Order to Commence as a federally regulated Schedule I bank from the Minister of Finance on October 13, 2009. As a chartered bank, HomEquity Bank has access to retail deposits sourced through deposit brokers, which became part of capital resources. The regulatory capital requirements of HomEquity Bank are specified by the Office of the Superintendent of Financial Institutions (OSFI) in its *Guideline A, Capital Adequacy Requirement (CAR) – Simpler Approaches*. The Guideline specifies the types of items included in capital and the measures OSFI will consider in reviewing capital adequacy. The OSFI capital requirements were not applicable to the period ended March 31, 2009 as the bank charter was only received on October 13, 2009.

There are two capital standards addressed in HomEquity Bank's capital management policy: risk based capital ratios and assets to capital multiple. The Company has implemented policies and procedures to monitor compliance with regulatory capital requirements. HomEquity Bank has implemented an Internal Capital Adequacy Assessment Process supported further by an Economic Capital Assessment which are both based on the Company's assessment of the business risks of HomEquity Bank.

The total regulatory capital of HomEquity Bank is comprised of Tier 1 and Tier 2 capital as follows:

	March 31 2010	December 31 2009
	\$	\$
Shareholders' equity per HomEquity Bank's consolidated balance sheet	75,798	76,666
Deductions	425	301
Tier 1 capital	75,373	76,365
Unsecured subordinated debt	8,000	8,000
Tier 2 capital	8,000	8,000
Total regulatory capital	83,373	84,365
Credit risk	455,769	440,250
Off-balance sheet exposure	5,581	6,258
Operational risk	39,950	40,331
Total risk-weighted assets	501,300	486,839
Capital ratios		
Tier 1 Capital Ratio (1)	15.0%	15.7%
Total Capital Ratio (2)	16.6%	17.3%
Assets-to-Capital Multiple (3)	12.1x	11.8x

(1) The Tier 1 Capital Ratio is defined as Tier 1 capital divided by total risk-weighted assets.

(2) The Total Capital Ratio is defined as total regulatory capital divided by total risk-weighted assets.

(3) The Assets-to-Capital Multiple is calculated by dividing total assets, including specified off-balance sheet items net of other specified deductions, by total capital.

During the period ended March 31, 2010 HomEquity Bank complied with the OSFI guideline related to capital ratios and the assets-to-capital multiple. Both the Tier 1 and Total Capital Ratios remain above OSFI's stated minimum capital ratios of 7% and 10%, respectively, for a well capitalized financial institution. HomEquity Bank's Assets-to-Capital Multiple remains below the maximum permitted by OSFI.

HomEquity Bank's wholly owned subsidiary, CHIP Mortgage Trust's ("CMT") borrowings are subject to debt-to-mortgage covenants. 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%. CMT is also required to maintain minimum cash on hand equivalent to 2% of its mortgage portfolio value. At March 31, 2010, the senior debt-to-mortgage ratio was 89.0% (December 31, 2009 – 90.4%, March 31, 2009 – 89.0%), the total debt-to-mortgage ratio was 96.2% (December 31, 2009 - 97.5%, March 31, 2009 – 96.1%) and CMT held more than the required amount of cash. The Company closely monitors business performance to manage compliance with these covenants.

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14. DERIVATIVE INSTRUMENTS

In the normal course of business, the Company enters into interest rate derivative contracts to manage interest rate risk. Derivative 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 values of the interest rate derivatives are determined using an internal valuation model with observable inputs. Changes in fair value resulting in unrealized gains or losses are recorded in the consolidated statements of income.

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 on the consolidated balance sheets. The floating rate for all instruments is based on the CDOR-BA rate for terms ranging from one to twelve months.

Interest rate contracts	March 31, 2010		
	Weighted average rate	Notional principal	Fair values
Receive fixed		\$	\$
Swaps	4.139%	645,600	24,860
Forward rate agreements	—	—	—
Pay fixed			
Swaps	1.003%	117,000	169
Forward rate agreements	0.710%	110,000	14
ASSETS		872,600	25,043
Receive fixed			
Swaps	2.222%	35,000	308
Forward rate agreements	—	—	—
Pay fixed			
Swaps	3.497%	87,500	2,450
Forward rate agreements	1.169%	10,000	13
LIABILITIES		132,500	2,771

Interest rate contracts	Weighted average rate		Notional principal		Fair values	
	December 31 2009	March 31 2009	December 31 2009	March 31 2009	December 31 2009	March 31 2009
Receive fixed			\$	\$	\$	\$
Swaps	4.139%	4.231%	650,000	800,000	28,248	44,538
Forward rate agreements	—	2.740%	—	10,000	—	56
Pay fixed						
Swaps	1.545%	—	25,000	—	288	—
Forward rate agreements	0.330%	—	60,000	—	8	—
ASSETS			735,000	810,000	28,544	44,594
Receive fixed						
Swaps	2.222%	—	35,000	—	188	—
Forward rate agreements	—	—	—	—	—	—
Pay fixed						
Swaps	2.246%	3.545%	195,500	133,000	3,146	5,284
Forward rate agreements	1.169%	2.175%	10,000	96,000	13	398
LIABILITIES			240,500	229,000	3,347	5,682

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14. DERIVATIVE INSTRUMENTS (continued)

Maturity terms

The following table summarizes the notional principal and fair value by term to maturity of derivative instruments outstanding on the consolidated balance sheets. Maturity dates range from May 2010 to November 2014.

	Remaining term to maturity				December 31 2009	March 31 2009
	Within 1 year	1 to 3 years	3 to 5 years	March 31 2010		
Notional principal	\$	\$	\$		\$	\$
Swaps	190,600	467,000	105,000	762,600	675,000	800,000
Forward rate agreements	110,000	—	—	110,000	60,000	10,000
Derivative assets	300,600	467,000	105,000	872,600	735,000	810,000
Swaps	17,000	66,000	39,500	122,500	230,500	133,000
Forward rate agreements	10,000	—	—	10,000	10,000	96,000
Derivative liabilities	27,000	66,000	39,500	132,500	240,500	229,000
Fair values						
Swaps	2,082	16,595	6,352	25,029	28,536	44,538
Forward rate agreements	14	—	—	14	8	56
Derivative assets	2,096	16,595	6,352	25,043	28,544	44,594
Swaps	125	1,763	870	2,758	3,334	5,284
Forward rate agreements	13	—	—	13	13	398
Derivative liabilities	138	1,763	870	2,771	3,347	5,682

Hedge accounting results

The Company'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 and retail deposits 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 losses (gains) on derivative instruments in the consolidated statements of income, along with adjustments to the carrying value of the financial instruments that are attributable to the hedged risk. The Company elected under Section 3865 – *Hedges*, to apply hedge accounting to the interest rate swaps detailed below.

During 2008, the Company entered into interest rates swaps having a notional amount of \$159,000 to hedge \$159,000 of the \$165,000 series 2008-1 fixed-rate medium-term debt issued during that year. The hedges are effective at March 31, 2010. The fair value of these swaps is positive \$3,984 at March 31, 2010 (December 31, 2009 – positive \$5,058, March 31, 2009 – positive \$8,274) and is recorded as derivative instruments asset on the consolidated balance sheets. For the period ended March 31, 2010, the Company has recorded a loss of \$1,074 (December 31, 2009 – loss of \$933, March 31, 2009 – loss of \$26) to unrealized losses (gains) on derivative instruments in the consolidated statements of income. For the period ended March 31, 2010 the carrying value of the fixed-rate medium-term debt has been adjusted by \$903 (December 31, 2009 - \$763, March 31, 2009 – \$396) with a corresponding gain to unrealized losses (gains) on derivative instruments in the consolidated statements of income (See note 9). For the period ended March 31, 2010, a loss of \$171 (December 31, 2009 – \$170, March 31, 2009 - \$422) arising from hedge ineffectiveness was recorded.

During 2009, the Company entered into interest rates swaps having a notional amount of \$10,000, to hedge \$10,000 of deposits issued during the year. The hedges are effective at March 31, 2010. The fair value of these swaps is negative \$97 at March 31, 2010 (December 31, 2009 – negative \$64, March 31, 2009 - Nil) and is recorded as derivative instruments liability on the consolidated balance sheets. For the period ended March 31, 2009, the Company has recorded a loss of \$33 (December 31, 2009 – loss of \$64, March 31, 2009 - Nil) to unrealized losses (gains) on derivative instruments in the consolidated statements of income. For the period ended March 31, 2010 the carrying value of the deposits has been adjusted by \$50 (December 31, 2009 – \$84, March 31, 2009 - Nil) with a corresponding gain (2008 – Nil) to unrealized losses (gains) on derivative instruments in the consolidated statements of income (See note 8). For the period ended March 31, 2009, a gain of \$17 (December 31, 2009 – gain of \$20, March 31, 2009 - Nil) arising from hedge ineffectiveness was recorded.

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14. 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 Company 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 Company. Credit risk is limited by dealing only with Schedule 1 Canadian Chartered banks as counterparties. The maximum derivative credit exposure to the Company is the fair value of derivative contracts presented in the summary table above. The Company's exposure to risks arising from other financial instruments is disclosed in note 15.

March 31, 2010	Notional principal	Replacement cost (1)	Credit risk equivalent (2)	Risk-weighted assets (3)	Fair value
Interest rate contracts	\$	\$	\$	\$	\$
Swaps					
Maturing within 1 year	190,600	2,082	2,082	417	2,082
Maturing in 1 to 3 years	467,000	16,595	18,930	3,786	16,595
Maturing in 3 to 5 years	105,000	6,352	6,877	1,375	6,352
Forward rate agreements					
Maturing within 1 year	110,000	14	14	3	14
	872,600	25,043	27,903	5,581	25,043

December 31, 2009	Notional principal	Replacement cost (1)	Credit risk equivalent (2)	Risk-weighted assets (3)	Fair value
Interest rate contracts	\$	\$	\$	\$	\$
Swaps					
Maturing within 1 year	110,000	3,076	3,076	615	3,076
Maturing in 1 to 3 years	455,000	19,201	21,476	4,295	19,201
Maturing in 3 to 5 years	110,000	6,259	6,809	1,362	6,259
Forward rate agreements					
Maturing within 1 year	60,000	8	—	—	8
	735,000	28,544	31,361	6,272	28,544

- (1) Replacement costs represents the cost of replacing all contracts that have a positive fair value, using current market rates
(2) Credit risk equivalent represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Guideline
(3) Risk-weighted assets represent the credit risk equivalent, weighted based on the creditworthiness of the counterparty, as prescribed by OSFI.

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15. FINANCIAL INSTRUMENTS – FINANCIAL RISKS

The Company performs regular monitoring of its risks, assessments, and related action plans. Senior Management and the Board of Directors obtain information that allows them to keep informed regarding the effectiveness of their risk management process and activities. The Company has a Conduct Review and Risk Management Committee to assist the Board of Directors in fulfilling its responsibilities.

Credit risk (non-derivative)

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 Company'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 assumed for the life of the mortgage is low in comparison with the Canadian average of approximately 4.4% for the past 20 years. The average rate of assumed appreciation used in the initial underwriting of the existing mortgage portfolio is approximately 1.4%. Each mortgage originated is limited in maximum dollar amount and loan-to-value ratio in accordance with internal guidelines. The Company 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 a most recently appraised value of \$2.5 billion.

Interest rate risk

The Company's operating margin is primarily derived from the spread between interest earned on the mortgage portfolio, and the interest paid on the debt and deposits used to fund the portfolio. Mortgages have various interest rate reset terms, ranging from variable to five-year. Interest on the majority of the Company's debt is fixed until maturity. The Company 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 76% 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' Acceptance rates. Historically, changes in interest rates do not impact each benchmark rate equally which may result in a reduction in spread.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations when they are due. With respect to medium-term and subordinated debt, the Company 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. With respect to deposits the Company mitigates risk by holding a required amount of cash and cash equivalents to meet maturing deposit liabilities.

The following table summarizes the expected final payment dates of debt principal and interest payable, derivative instruments and interest payable on derivatives and deposit maturities on the consolidated balance sheets:

	Within 1 year	2 to 3 years	4 to 5 years	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$	\$	\$	\$
Deposits	37,569	33,374	27,046	97,989	40,093	—
Interest payable on medium-term debt	10,441	—	—	10,441	7,858	13,533
Interest payable on subordinated debt	596	—	—	596	719	873
Interest payable on unsecured subordinated debt	426	—	—	426	183	—
Derivative instruments	138	1,763	870	2,771	3,347	5,682
Interest payable on derivative instruments	—	—	—	—	—	324
Debt principal (1)						
Medium-term debt	225,600	510,000	12,884	748,484	784,115	787,989
Subordinated debt	—	10,000	40,000	50,000	50,000	60,000
Unsecured subordinated debt	—	—	10,000	10,000	10,000	—
Total	274,770	555,137	90,800	920,707	896,315	868,401

(1) Certain tranches of debt have refinancing terms upon their expected final payment dates. See notes 9 and 10.

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15. FINANCIAL INSTRUMENTS – FINANCIAL RISKS (continued)

Interest rate sensitivity

The Company is exposed to interest rate risk as a result of the mismatch, or gap, between the maturity or repricing date of interest sensitive assets and liabilities. The following table summarizes the gap position on the consolidated balance sheets for the selected period intervals. Figures in parentheses represent an excess of liabilities over assets or a negative gap position.

The Company estimates that an annualized 100 basis point decrease in interest rates would increase net interest income after tax over the next twelve months by \$121. A 100 basis point increase in interest rates would decrease net income after tax over the next twelve months by a similar amount. These sensitivities are hypothetical and should be used with caution.

(in thousands except % amounts)	Floating	0 to 3 months	4 to 12 months	1 to 3 years	Over 3 years	Non-interest rate sensitive	Total
March 31, 2010	\$	\$	\$	\$	\$	\$	\$
Total assets	156,941	169,891	454,605	125,632	54,322	73,157	1,034,548
Total liabilities and equity	—	15,641	263,375	553,646	77,227	124,659	1,034,548
Derivative instruments	—	(260,100)	(221,400)	471,000	10,500	—	—
Interest rate sensitivity gap	156,941	(105,850)	(30,170)	42,986	(12,405)	(51,502)	—
Cumulative gap	156,941	51,091	20,921	63,907	51,502	—	—
Cumulative gap as a percentage of total assets	15.2%	4.9%	2.0%	6.2%	5.0%	—	—
December 31, 2009							
Total assets	122,069	181,936	457,343	123,417	55,706	76,092	1,016,563
Total liabilities and equity	—	2,160	288,911	430,450	166,118	128,924	1,016,563
Derivative instruments	—	(142,500)	(321,000)	353,000	110,500	—	—
Interest rate sensitivity gap	122,069	37,276	(152,568)	45,967	88	(52,832)	—
Cumulative gap	122,069	159,345	6,777	52,744	52,832	—	—
Cumulative gap as a percentage of total assets	12.0%	15.7%	0.7%	5.2%	5.2%	—	—
March 31, 2009							
Total assets	105,525	233,145	425,240	99,950	61,840	74,589	1,000,289
Total liabilities and equity	—	23,153	150,519	400,000	280,000	146,617	1,000,289
Derivative instruments	—	(349,500)	(201,000)	326,000	224,500	—	—
Interest rate sensitivity gap	105,525	(139,508)	73,721	25,950	6,340	(72,028)	—
Cumulative gap	105,525	(33,983)	39,738	65,688	72,028	—	—
Cumulative gap as a percentage of total assets	10.5%	(3.4%)	4.0%	6.6%	7.2%	—	—

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarizes the fair values of the Company's financial instruments. The estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical financial instruments (Level 1); internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 1 and Level 3 financial instruments at the consolidated balance sheet dates and there have been no transfers between levels.

Due to the estimation process and the need to use judgement, the aggregate fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

	March 31, 2010			December 31, 2009			March 31, 2009		
	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair value	Fair value over carrying value	Carrying value	Fair Value	Fair value over carrying value
Assets									
Cash Resources (1)	25,681	25,681	—	36,488	36,488	—	38,186	38,186	—
Securities (1)	5,698	5,698	—	12,192	12,192	—	17,051	17,051	—
Loans(2)	956,058	956,058	—	917,161	917,161	—	879,604	879,604	—
Derivative instruments (3)	25,043	25,043	—	28,544	28,544	—	44,594	44,594	—
Other (4)	22,068	22,068	—	22,178	22,178	—	20,854	20,854	—
	1,034,548	1,034,548	—	1,016,563	1,016,563	—	1,000,289	1,000,289	—
Liabilities									
Deposits(5)	97,989	98,451	462	40,093	40,549	456	—	—	—
Derivative instruments (3)	2,771	2,771	—	3,347	3,347	—	5,682	5,682	—
Other(4)	16,030	16,030	—	19,334	19,334	—	16,741	16,741	—
Medium-term debt (6)	757,147	776,801	19,654	792,328	812,628	20,300	806,652	799,184	(7,468)
Subordinated debt (6)	50,025	50,300	275	50,335	48,923	(1,412)	60,324	59,203	(1,121)
Unsecured subordinated debt (6)	10,390	10,560	170	10,144	10,421	277	—	—	—
Shareholders' equity	100,196	100,196	—	100,982	100,982	—	110,890	110,890	—
	1,034,548	1,055,109	20,561	1,016,563	1,036,184	19,621	1,000,289	991,700	(8,589)

The fair value amounts of the Company's financial instruments have been determined using the following methods and assumptions:

- (1) Cash resources and securities are valued using internal models using observable market information as inputs (Level 2)
- (2) Loans are recorded at amortized cost. The carrying value of the mortgage loans approximates fair value as the prevailing interest rates reset in accordance with the provisions of the underlying mortgage terms.
- (3) Fair value of derivative instruments is determined using an internal valuation model with observable inputs (Level 2)
- (4) Certain other assets and certain other liabilities are recorded at amortized cost. The carrying value of these other assets and other liabilities are assumed to approximate their fair value due to their short-term nature.
- (5) Fair value of deposits is determined by discounting the contractual cash flows using the market interest rates currently offered for deposits with similar terms.
- (6) Fair value of medium-term debt, subordinated debt and unsecured subordinated debt are determined using average quoted market rates provided to the Company by capital markets dealers.

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17. SALARIES AND BENEFITS

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Mortgage servicing and administration	45	43	47
Overhead	1,233	1,502	1,082
	1,278	1,545	1,129

18. SELLING, GENERAL AND ADMINISTRATION

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Marketing	588	663	428
Professional services	508	478	878
Office expenses	326	353	264
Other	151	91	116
Business and capital taxes	72	45	—
Mortgage servicing and administration	30	34	28
	1,675	1,664	1,714

19. CONSOLIDATED STATEMENTS OF CASH FLOW

	March 31 2010	December 31 2009	March 31 2009
	\$	\$	\$
Prepaid expenses and other assets	36	114	(53)
Income taxes payable	(1,006)	899	—
Accounts payable and accrued liabilities	(1,466)	1,326	(637)
	(2,436)	2,339	(690)

20. FUTURE ACCOUNTING CHANGES

Transition to International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards (IFRS) will replace current Canadian GAAP for publicly accountable enterprises, including the Company, effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will report interim and annual financial statements in accordance with IFRS beginning with the quarter ended March 31, 2011. The Company's 2011 interim and annual financial statements will include comparative 2010 financial statements, adjusted to comply with IFRS.

The Company has developed a comprehensive IFRS implementation plan and established an implementation team to prepare for this transition. Early in 2009, the implementation team completed an assessment of the key areas where changes to accounting policies may be required. The team has substantially completed the detailed analysis of IFRS requirements in the key areas and is currently assessing the results of this analysis with advisors and management in order to make a final determination of the changes that may be required to current accounting policies.

21. SUBSEQUENT EVENT

On May 5, 2010 the Company's Board of Directors approved the payment of a quarterly dividend of \$0.07 per share on the outstanding common shares of the Company, which is equivalent to an annual dividend of \$0.28 per share. The dividend is payable to shareholders of record at the close of business on June 28, 2010 and is payable on July 13, 2010.

22. 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 2010 consolidated financial statements.

NOTES

CORPORATE INFORMATION

REGISTRAR AND TRANSFER AGENT

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Toll free: 1-800-663-9097

STOCK LISTING

The shares of HOMEQ Corporation
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Toronto Stock Exchange under the
symbol HEQ

For further information, please contact:

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