

CARFINCO INC.

THIRD QUARTER REPORT TO SHAREHOLDERS

NINE MONTHS ENDED MAY 31, 1998

PRESIDENT'S MESSAGE

To Our Shareholders

We are pleased to report the Third Quarter Report for the nine months ended May 31, 1998. CARFINCO is operational in western Canada and the province of Ontario and its objective is to become a nationally recognized brand name for consumer automotive repair financing needs.

Our third quarter has been characterized by increasing income and a stabilization of expenses. For the three months ended May 31, 1998, CARFINCO's 'Net Interest and Other Income' was \$125,120 as compared to \$80,488 in the second quarter of fiscal 1998 and to \$46,481 in the first quarter of fiscal 1998, which respectively represents a 56% and 73% increase, quarter to quarter. For the three months ended May 31, 1998, CARFINCO's 'Non-interest Expenses' were \$201,620 as compared to \$194,418 in the second quarter of fiscal 1998 and to \$146,019 in the first quarter of fiscal 1998, which respectively represents a 4% and 33% increase, quarter to quarter. The finance receivable portfolio was \$2,322,644 at the quarter end and continues to grow on a steady basis.

Management has focused on balancing our expansion of the Authorized Repairer network with allowing the current growth rate to build a finance receivable portfolio sufficient in size to support the current overhead structure.

During the period, CARFINCO successfully completed a private share placement. The Company received gross proceeds of \$756,000 with the issuance of 2,800,000 common shares at a price of \$0.27.

Over 1,200 Authorized Repair facilities have now been enrolled into CARFINCO's Payment Plan program. Geographic expansion into British Columbia is proceeding on schedule with expansion into Saskatchewan and Manitoba being well under way. The expansion into Ontario commenced in January 1998 and is proceeding on a prudent and controlled basis.

We are proceeding towards our goal of developing a nationally recognized brand name in the Automotive Repair Industry and your continued Shareholder support is vital to that achievement.

On behalf of the Board, I wish to take this opportunity to thank our Shareholders, Customers and Authorized Repairers for their continued support.

"signed"
"R. Lee Emerson"

R. Lee Emerson, President and Chief Executive Officer

CARFINCO INC.

CONSOLIDATED BALANCE SHEET
(Unaudited)

Assets	<u>May 31, 1998</u>	<u>May 31, 1997</u>
Current		
Finance receivables (net of allowance for credit losses)	\$ 2,322,644	\$ 107,626
Restricted cash	-	800,000
Other assets	<u>64,610</u>	<u>4,694</u>
	2,387,254	912,320
Capital Assets	<u>41,227</u>	<u>10,439</u>
	<u>\$ 2,428,481</u>	<u>\$ 922,759</u>
Liabilities		
Current		
Bank indebtedness	\$ 617,057	\$ 196,051
Payables and accruals	<u>200,598</u>	<u>113,459</u>
	<u>817,655</u>	<u>309,510</u>
Shareholders' Equity		
Share capital	2,136,256	757,037
Deficit	<u>(525,430)</u>	<u>(143,788)</u>
	<u>1,610,826</u>	<u>613,249</u>
	<u>\$ 2,428,481</u>	<u>\$ 922,759</u>

CARFINCO INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT
(Unaudited)

	For the nine months ended	
	<u>May 31, 1998</u>	<u>May 31, 1997</u>
Interest income	\$ 231,775	\$ 2,013
Interest expense	<u>59,624</u>	<u>738</u>
	172,151	1,275
Provision for credit losses	<u>62,900</u>	<u>3,300</u>
Net interest income (loss) after provision for credit losses	<u>109,251</u>	<u>(2,025)</u>
Other income		
Administration fees	120,977	4,062
Investment income	<u>21,861</u>	<u>1,515</u>
	<u>142,838</u>	<u>5,577</u>
Net interest and other income	<u>252,089</u>	<u>3,552</u>
Non-interest expenses		
Advertising and promotion	16,707	3,804
Depreciation	6,551	1,043
General and administrative	250,832	85,609
Management fees and salaries	236,007	45,700
Repairer setup costs	<u>31,960</u>	<u>11,184</u>
	<u>542,057</u>	<u>147,340</u>
Net Loss	(289,968)	(143,788)
Deficit, beginning of period	\$ (235,462)	-
Deficit, end of period	<u>\$ (525,430)</u>	<u>\$ (143,788)</u>
Loss per share - basic	<u>\$ (0.05)</u>	<u>\$ (0.10)</u>

CARFINCO INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)

	For the nine months ended	
	<u>May 31, 1998</u>	<u>May 31, 1997</u>
Operating Activities		
Loss for the period	\$ (289,968)	\$ (143,788)
Items not affecting cash:		
Accrued interest	(45,394)	(1,343)
Administration fees not collected	(92,281)	-
Depreciation	6,551	1,043
Provision for credit losses	<u>62,900</u>	<u>3,300</u>
	(358,192)	(140,788)
Net changes in operating working capital	<u>83,803</u>	<u>108,765</u>
	<u>(274,389)</u>	<u>(32,023)</u>
Investing Activities		
Funds advanced on finance receivables	(2,624,397)	(112,370)
Principal collections on finance receivables	745,367	2,787
Purchase of capital assets	<u>(28,634)</u>	<u>(11,482)</u>
	<u>(1,907,664)</u>	<u>(121,065)</u>
Financing Activities		
Issuance of share capital	1,432,075	876,000
Share issue costs	<u>(35,108)</u>	<u>(118,963)</u>
	<u>1,396,967</u>	<u>757,037</u>
Net decrease in cash during the period	(785,086)	603,949
Cash, beginning of period	<u>168,029</u>	-
Cash, end of period	<u>\$ (617,057)</u>	<u>\$ 603,949</u>
Cash represented by		
Restricted cash	\$ -	\$ 800,000
Bank indebtedness	<u>(617,057)</u>	<u>(196,051)</u>
	<u>\$ (617,057)</u>	<u>\$ 603,949</u>

CARFINCO INC.

CORPORATE INFORMATION

Board of Directors

R. Lee Emerson
Edward C. McClelland
Tracy A. Graf
Gordon J. Reykdal
David Prussky

Officers

R. Lee Emerson
President and Chief Executive Officer
Troy S.F. Graf
Vice President and Chief Financial Officer
Paul M. Stein
Corporate Secretary

Bankers

Canadian Imperial Bank of Commerce
Commerce Place, Suite 1900
10155 - 102nd Street
Edmonton, Alberta T5J 4G8

Auditors

Grant Thornton
Scotia Place I, Suite 2400
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Cassels Brock & Blackwell
Scotia Plaza, Suite 2100
40 King Street West
Toronto, Ontario M5H 3C2

Transfer Agents

Equity Transfer Services Inc.
Richmond Adelaide Centre
Suite 420, 120 Adelaide Street West
Toronto, Ontario M5H 4C3

Stock Exchange Listing

The Canadian Dealing Network
Trading Symbol: CAAR

CARFINCO INC.

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