

CARFINCO INC.

THIRD QUARTER REPORT TO SHAREHOLDERS

NINE MONTHS ENDED MAY 31, 1999

PRESIDENT'S MESSAGE

To Our Shareholders,

At the closing of the third quarter of Fiscal 1999, 2,334 repair facilities were enrolled as "Authorized Repairers" of CARFINCO's monthly payment plan for automotive repairs. This is an increase of 312 facilities in the past three months from the second quarter total of 2,022 facilities. As a result of requests from repair facilities in Manitoba, CARFINCO has expanded into this province on a limited basis during the quarter. Our emphasis has remained the development of the network of "Authorized Repairers" in the provinces of Ontario and British Columbia, as well as cultivating strong working relationships with the facilities that are currently part of the network. The contribution to the finance receivables from the network of repairers in Alberta continues to grow.

The Company's finance receivables portfolio was \$4,464,389 at the end of the third quarter, an increase of \$527,613 from the second quarter of Fiscal 1999. The finance receivables of \$4,464,389 represent an increase of 86.2% (\$2,067,245) from the finance receivables of \$2,397,144 for the same reporting period of Fiscal 1998.

Year to date revenues have increased \$554,986 from \$374,613 in the third quarter of Fiscal 1998 to \$929,599 in the third quarter of Fiscal 1999, representing an increase of 148%. Revenues of \$359,352 in the third quarter have increased \$55,874 from the second quarter and \$92,583 from the first quarter.

From the second quarter to third quarter of Fiscal 1999 expenses have increased 16.2% (\$48,945) from \$302,060 to \$351,055. Interest and Provision from credit losses account for 59.2% of the increase rising \$19,670 and \$9,315 respectively. Both of these line items are in direct correlation to the size of the portfolio.

The balance of the expenses, Advertising and Marketing, Depreciation, General and Administrative, Salaries and Regional Manager Fees, account for 40.8% of the increase, rising \$19,960. Advertising and Marketing expense decreased during the period as the Company has an ample stock of materials needed for Advertising. The increase of \$16,736 in General and Administrative is due to the increased volume of credit bureau searches, vehicle lien searches, security interest and lien registrations on the personal property registries, as well as public company costs. During the third quarter, the Company continued to operate with a Regional Manager in British Columbia and Ontario, while maintaining Alberta from the corporate office in Edmonton.

We look forward to the challenges ahead in growing CARFINCO into a recognized brand name for automotive repair financing from coast to coast. Thank you to all involved in the continuing growth of CARFINCO, the board of directors, employees, the repair facilities involved, our customers, and you - the Shareholders.

"signed"  
"Tracy A. Graf"

Tracy A. Graf  
President and Chief Executive Officer

## CARFINCO INC.

## CONSOLIDATED BALANCE SHEET

(Unaudited)

As at May 31

Assets	<u>1999</u>	<u>1998</u>
Current		
Finance receivables	\$ 4,464,389	\$ 2,397,144
Less allowance for credit losses	<u>130,500</u>	<u>74,500</u>
Finance receivables – net	4,333,889	2,322,644
Other assets	<u>100,996</u>	<u>64,610</u>
	<u>4,434,885</u>	<u>2,387,254</u>
Non-current		
Capital assets	41,624	41,227
Deferred costs	<u>49,213</u>	<u>-</u>
	<u>90,837</u>	<u>41,227</u>
	<u>\$ 4,525,722</u>	<u>\$ 2,428,481</u>
Liabilities		
Current		
Bank indebtedness	\$ 159,671	\$ 617,057
Payables and accruals	<u>84,107</u>	<u>200,598</u>
	<u>243,778</u>	<u>817,655</u>
Non-current		
Long-term debt	<u>2,725,000</u>	<u>-</u>
Shareholders' Equity		
Share capital	2,128,615	2,136,256
Deficit	<u>(571,671)</u>	<u>(525,430)</u>
	<u>1,556,944</u>	<u>1,610,826</u>
	<u>\$ 4,525,722</u>	<u>\$ 2,428,481</u>

CARFINCO INC.

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND DEFICIT

(Unaudited)

Nine months ended May 31

	<u>1999</u>	<u>1998</u>
<b>Revenues</b>		
Interest income	\$ 679,009	\$ 231,775
Administration fees	250,590	120,977
Investment income	<u>-</u>	<u>21,861</u>
	<u>929,599</u>	<u>374,613</u>
<b>Expenses</b>		
Interest	149,425	59,624
Provision for credit losses	116,871	62,900
Advertising and marketing	39,733	48,667
Depreciation	9,148	6,551
General and administrative	341,572	250,832
Salaries and regional manager fees	<u>262,404</u>	<u>236,007</u>
	<u>919,153</u>	<u>664,581</u>
Net income (loss)	10,446	(289,968)
Deficit, Beginning of period	<u>(582,117)</u>	<u>(235,462)</u>
Deficit, End of period	<u>\$ (571,671)</u>	<u>\$ (525,430)</u>
Earnings (loss) per share - basic	<u>\$ -</u>	<u>\$ (0.05)</u>

## CARFINCO INC.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

Nine months ended May 31

	<u>1999</u>	<u>1998</u>
Cash derived from (applied to)		
Operating		
Net income (loss)	\$ 10,446	\$ (289,968)
Accrued interest	(32,623)	(45,394)
Administration fees not collected	(91,675)	(92,281)
Depreciation	9,148	6,551
Provision for credit losses	<u>116,871</u>	<u>62,900</u>
	12,167	(358,192)
Change in non-cash operating working capital	<u>(57,662)</u>	<u>83,803</u>
	<u>(45,495)</u>	<u>(274,389)</u>
Investing		
Funds advanced on finance receivables	(4,095,588)	(2,624,397)
Principal collections on finance receivables	2,614,149	745,367
Proceeds for sale of finance receivables	118,710	-
Purchase of capital assets	<u>(10,839)</u>	<u>(28,634)</u>
	<u>(1,373,568)</u>	<u>(1,907,664)</u>
Financing		
Proceeds from long-term debt	2,725,000	-
Unamortized long-term debt issue costs	(49,213)	-
Issuance of share capital	-	1,432,075
Share issue costs	<u>(4,641)</u>	<u>(35,108)</u>
	<u>2,671,146</u>	<u>1,396,967</u>
Net decrease (increase) in bank indebtedness during the period	1,252,083	(785,086)
Bank indebtedness (cash)		
Beginning of period	<u>1,411,754</u>	<u>(168,029)</u>
End of period	<u>\$ 159,671</u>	<u>\$ 617,057</u>

CARFINCO INC.

CORPORATE INFORMATION

**Board of Directors**

Tracy A. Graf  
Gordon J. Reykdal  
David Prussky  
Edward C. McClelland  
David Rosenkrantz

**Officers**

Tracy A. Graf	President and Chief Executive Officer
Troy S.F. Graf	Vice President and Chief Financial Officer
Paul M. Stein	Corporate Secretary
David Prussky	Treasurer

**Bankers**

Canadian Imperial Bank of Commerce  
Omnicentre One  
9636 – 51<sup>st</sup> Avenue  
Edmonton, Alberta T6H 2W1

**Auditors**

Grant Thornton  
Scotia Place 1, 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

**Head Office**

**CARFINCO INC.**  
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