

CARFINCO INC.

THIRD QUARTER REPORT 2001

NINE MONTHS ENDED MAY 31, 2001

PRESIDENT'S MESSAGE

To Our Shareholders,

The management at Carfinco Inc. is pleased to release the results for the Third Quarter of Fiscal 2001. Management has effectively kept the operating expenses and bad debt write off percentages within the Company's internal forecasts while exceeding the forecasted finance receivables portfolio, revenues and net earnings. The change in focus from the repair-finance program to the purchase-finance program has had a positive material effect on the Company's operations.

The finance receivables of \$18,746,047 for the third quarter of fiscal 2001 represent an increase of \$2,736,941 (17%) from the second quarter finance receivables of \$16,009,106 and \$5,687,638 (44%) from the first quarter finance receivables of \$13,058,409. The finance receivables of \$18,746,047 at May 31, 2001 has increased \$9,079,302 (94%) from the \$9,666,745 recorded at May 31, 2000.

Revenues for the third quarter of fiscal 2001 were \$1,514,923, an increase of \$282,440 (23%) from the second quarter revenues of \$1,232,483 and \$466,662 (45%) from the first quarter revenues of \$1,048,261. Revenues of \$3,795,667 for the nine months ended May 31, 2001 represent an increase of \$1,831,781 (93%) from the \$1,963,886 recorded for the nine months ended May 31, 2000.

The net earnings for the third quarter of fiscal 2001 are the highest net earnings for a quarter in the Company's history. The net earnings of \$310,988 represent an increase of \$209,627 (207%) from the second quarter net earnings of \$101,361 and \$236,348 (317%) from the first quarter net earnings of \$74,640. The net earnings of \$486,989 for the nine months ended May 31, 2001 represents an increase of \$354,141 (267%) from the \$132,848 recorded for the nine months ended May 31, 2000.

The deficit of \$1,158,769 at the beginning of fiscal 2001 has been reduced by \$486,989 (42%) to \$671,780 during the nine months ended May 31, 2001. This was achieved while also contributing an additional \$406,648 towards the allowance for credit losses during the same reporting period.

During the third quarter of fiscal 2001 an additional \$123,649 was added to the allowance for credit losses, increasing the allowance to \$1,306,648. The allowance at May 31, 2001 of \$1,306,648 represents an increase of \$1,067,648 (447%) from the allowance of \$239,000 at May 31, 2000.

Expenses for the third quarter of fiscal 2001 were \$1,203,935, an increase of \$72,813 (6%) from the \$1,131,122 for the second quarter and \$230,313 (24%) from the expenses of \$973,621 for the first quarter. The interest expense and provision for credit losses, which increase in direct proportion to the finance receivables growth, constitute 63% of the expenses. Carfinco's annualized ratio of operating expenses to average finance receivables decreased to 10.8% for the third quarter of 2001 from 11.3% for the second quarter, 12.0% for the first quarter and from 14.2% for the fiscal year ended August 31, 2000.

The management of Carfinco Inc. continues to place emphasis on controlled growth. With our current management systems, controls, policies and staffing, we feel the Company's finance receivable portfolio is growing at a manageable rate.

Thank you for your continued support and confidence in Carfinco.

"signed"  
"Tracy A. Graf"

Mr. Tracy A. Graf  
President and Chief Executive Officer

Carfinco Inc.  
Consolidated Balance Sheets  
May 31  
(unaudited)

	<u>2001</u>	<u>2000</u>
<b>Assets</b>		
Finance receivables	\$ 18,746,047	\$ 9,666,745
Less allowance for credit losses	1,306,648	239,000
Finance receivables - net	<u>17,439,399</u>	<u>9,427,745</u>
Other assets	36,092	57,563
Capital assets	187,571	220,282
Deferred costs	<u>136,744</u>	<u>49,513</u>
	<u>\$ 17,799,806</u>	<u>\$ 9,755,103</u>
<b>Liabilities</b>		
Bank indebtedness	\$ 13,630,937	\$ 6,978,550
Payables and accruals	17,769	113,215
Long-term debt	<u>2,444,713</u>	<u>719,905</u>
	<u>16,093,419</u>	<u>7,811,670</u>
<b>Shareholders' Equity</b>		
Share capital	2,378,167	2,378,167
Deficit	<u>(671,780)</u>	<u>(434,734)</u>
	<u>1,706,387</u>	<u>1,943,433</u>
	<u>\$ 17,799,806</u>	<u>\$ 9,755,103</u>

Carfinco Inc.  
Consolidated Statements of Earnings and Deficit  
Nine Months Ended May 31  
(unaudited)

	<u>2001</u>	<u>2000</u>
Revenues		
Interest income	\$ 3,075,338	\$ 1,340,878
Administration fees	720,329	623,008
	<u>3,795,667</u>	<u>1,963,886</u>
Expenses		
Interest	1,008,991	446,228
Provision for credit losses	1,079,718	570,744
Advertising and marketing	19,765	11,434
Amortization	40,310	21,403
General and administrative	648,170	450,351
Salaries and benefits	511,724	330,878
	<u>3,308,678</u>	<u>1,831,038</u>
Net earnings	<u>\$ 486,989</u>	<u>\$ 132,848</u>
Deficit, beginning of period	\$ (1,158,769)	\$ (567,582)
Net earnings	<u>486,989</u>	<u>132,848</u>
Deficit, end of period	<u>\$ (671,780)</u>	<u>\$ (434,734)</u>
Earnings per share - basic	<u>\$ 0.040</u>	<u>\$ 0.011</u>
Earnings per share - fully diluted	<u>\$ 0.033</u>	<u>\$ 0.010</u>

Carfinco Inc.  
Consolidated Statements of Cash Flows  
Nine Months Ended May 31  
(unaudited)

	<u>2001</u>	<u>2000</u>
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	\$ 486,989	\$ 132,848
Adjustments to reconcile net earnings to net cash from operations:		
Provision for credit losses	1,079,718	570,744
Amortization	40,310	21,403
Accrued interest	(68,114)	(86,987)
Administration fees receivable	(411,386)	(409,722)
Deferred costs	12,977	17,828
Payables and accruals	(326,806)	27,392
Other assets	(5,682)	116,103
	<u>808,006</u>	<u>389,609</u>
Investing		
Funds advanced on finance receivables	(13,241,108)	(8,628,095)
Principal collections on finance receivables	6,182,662	3,944,667
Purchase of capital assets	(12,978)	(151,604)
	<u>(7,071,424)</u>	<u>(4,835,032)</u>
Financing		
Issuance of long-term debt	475,000	125,297
Repayment of long-term debt	(18,894)	(5,392)
	<u>456,106</u>	<u>119,905</u>
Net decrease in cash and cash equivalents	(5,807,312)	(4,325,518)
Cash and cash equivalents		
Beginning of period	<u>(7,823,625)</u>	<u>(2,653,032)</u>
End of period	<u>\$ (13,630,937)</u>	<u>\$ (6,978,550)</u>

## Corporate Information

### Directors

Tracy A. Graf  
President and Chief Executive Officer  
Carfinco Inc.  
Edmonton, Alberta

David Prussky  
Director  
Patica Corporation  
Ontario

Gordon J. Reykdal  
Private Investor  
Edmonton, Alberta

Edward C. McClelland  
President  
Gambit Consultants Inc.  
Burlington, Ontario

David Rosenkrantz  
Director  
Patica Corporation  
Toronto, Ontario

Simon Serruya  
General Manager Consumer Products  
Yogen Fruz World-Wide Inc.  
Toronto, Ontario

### 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

Bank of Montreal  
Argyll Branch  
6240 – 97 Street  
Edmonton, Alberta T6E 3J6

### Auditors

Grant Thornton, Chartered Accountants Toronto,  
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 Agent

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

### Stock Exchange Listing

The Canadian Venture Exchange  
Trading Symbol: YCR

### Head Office

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