



President's Message to Shareholders

To Our Shareholders,

Carfinco Inc. has received shareholder and regulatory approval for the proposed reorganization of Carfinco into an income trust (the "Fund"). The shares of Carfinco Inc. halted trading on November 26, 2002 and it is anticipated the Units of the Fund will commence trading on the TSXV under the symbol "CFN.UN" on, or about, December 4, 2002.

The reorganization is the foundation of a plan to unlock shareholder value and to develop a platform for growth. Under the terms of the reorganization, Carfinco shareholders will receive one Unit of the Fund for each Carfinco Inc. common share held.

The current business and operations of Carfinco will be unaffected by the reorganization and will continue to be performed by the current management and employees of Carfinco.

This, the third quarter report of fiscal 2002, is anticipated to be the final financial reporting for Carfinco Inc. and in the future the financial reporting will be consolidated financial statements for the Fund. The following comparative figures are based on the nine months ended September 30, 2002 compared to the nine months ended August 31, 2001. This comparison is due to the change in the fiscal year end from August 31 to December 31, effective December 31, 2001.

The net finance receivables of \$23,620,746 for the third quarter of 2002 represents an increase of \$605,545 (2.6%) from the second quarter of 2002 and an increase of \$3,380,956 (16.7%) from August 31, 2001.

Revenues of \$2,202,654 for the third quarter of fiscal 2002 represent an increase of \$158,372 (7.7%) and \$69,854 (3.3%) from the first and second quarters of fiscal 2002, respectively. Revenues of \$6,379,736 for the nine months ended September 30, 2002 represents an increase of \$1,662,272 (35.2%) from the comparable nine months ended August 31, 2001.

Earnings before income tax of \$1,180,970 for the nine months ended September 30, 2002 represents an increase of \$434,086 (58.1%) from the \$746,884 reported for the comparable nine months ended August 31, 2001.

Expenses of \$1,838,137 for the third quarter of 2002 represent an increase of \$199,452 (12.2%) and \$116,193 (6.7%) from the first and second quarters of fiscal 2002, respectively. Expenses of \$5,198,766 for the nine months ended September 30, 2002 represent an increase of \$1,228,186 (30.9%) from the \$3,970,580 reported for the comparable nine months ended August 31, 2001. Interest expense and provision for credit losses account for the majority of the expenses at 67.3% (\$3,499,945) of the total for the nine months ended September 30, 2002.

Thank you to our shareholders for your continued support and a unanimous approval for the reorganization of Carfinco Inc. into an income trust.

Tracy A. Graf
President and Chief Executive Officer

Overview

Carfinco Inc. (the "Company") is a holding company and operates through its wholly-owned subsidiary, Canadian Automotive Finance Corporation. The Company also owns 0.3% of the outstanding partnership units in Carfinco Limited Partnership, which is a partnership registered under the Limited Partnerships Act (Ontario), and Canadian Automotive Finance Corporation owns the remaining 99.7%. Established in March 1997, the Company purchases loans originated by select independent and franchise vehicle dealers to consumers buying late model used automobiles. The Company targets borrowers who are typically unable to obtain financing from traditional sources. On January 30, 2001, the Company discontinued its automotive repair finance program.

To fund the acquisition of receivables, the Company utilizes its borrowings under its credit facility, as well as, borrowings through subordinated debenture issuances. The Company generates interest and fee income on its finance receivables and pays interest expense on borrowings under its credit facility and on outstanding subordinated debentures.

Results of Operations

Carfinco Inc. reported earnings before income taxes of \$364,517, in the third quarter of fiscal 2002, as compared to \$334,535 during the three months ended August 31, 2001. The earnings before income taxes increased \$434,086, or 58%, from \$746,884 for the nine months ended August 31, 2001 to \$1,180,970 for the nine months ended September 30, 2002.

The Company's revenues increased by \$1,662,272, or 35%, to \$6,379,736 from the nine months ended August 31, 2001 revenues of \$4,717,464. Revenues continue to increase in conjunction with the growth in the finance receivables portfolio. The larger portfolio generates additional interest income and origination and collection activity generates additional administration fee income.

Overall, the expenses increased by \$1,228,186, or 31%, to \$5,198,766 from the nine months ended August 31, 2001 expenses of \$3,970,580. Interest expense increased by \$43,019 (4%), provision for credit losses increased \$797,584 (52%) and the remaining operational expenses increased \$387,583 (30%). The provision for credit losses expense of \$2,339,961 is comprised of \$620,000 to increase the non-cash allowance for credit losses and \$1,719,961 in net write offs.

Asset Review

The Company's finance receivables (net) grew during the quarter by \$605,545, or 3%, to \$23,620,746. Funds advanced on finance receivables amounted to \$4,560,204 for the third quarter of fiscal 2002, compared to \$4,508,865 for the second quarter and \$4,588,364 for the first quarter.

The Company's allowance for credit losses was \$2,585,000 at September 30, 2002, up \$620,000, or 32% from the \$1,965,000 at December 31, 2001. Allowance for credit losses, as a percent of finance receivables, was 9.9% as at September 30, 2002, compared to 9.5% at June 30, 2002, 9.0% at March 31, 2002, 8.4% at December 31, 2001 and 7.4% at August 31, 2001. The provision for credit losses on loans is made in an amount sufficient to maintain the allowance for credit losses at a level considered adequate to cover probable losses of principal and interest in the existing portfolio. Probable losses are estimated based on contractual delinquency status and historical loss experience. The Company believes that the allowance for credit losses is currently adequate to absorb potential losses in the finance receivable portfolio.

Liquidity and Capital Resources

The Company's primary sources of cash have been; cash flows from operating activities, borrowings under its credit facility, and the issuance of debt and equity. The Company's primary uses of cash have been; the funding of advances on finance receivables and the purchase of certain capital assets. Management believes that the resources available to the Company provide the needed capital to fund the anticipated expansion of the Company, loan purchases, and investments in operating infrastructure for fiscal 2002.

The Company currently maintains a credit facility of \$25,000,000, subject to a defined borrowing base. The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at September 30, 2002, a total of \$16,793,047 was outstanding under the credit facility.

During the third quarter of 2002, the Company successfully raised an additional \$200,000 in non-convertible unsecured 16% debentures, bringing the total to \$3,710,000.

Carfinco Inc.
Consolidated Balance Sheets
(unaudited)



	<u>September 30, 2002</u>	<u>August 31, 2001</u>
Assets		
Finance receivables - net (Note 2)	\$ 23,620,746	\$ 20,239,790
Other assets	199,524	37,806
Capital assets	166,127	182,017
Deferred costs	186,634	97,559
Future income taxes	<u>-</u>	<u>49,964</u>
	<u>\$ 24,173,031</u>	<u>\$ 20,607,136</u>
Liabilities		
Bank indebtedness (Note 4)	\$ 16,552,559	\$ 15,846,057
Payables and accruals	360,056	121,778
Income taxes payable	22,570	-
Future income taxes	25,650	-
Long term debt (Note 5)	<u>3,710,000</u>	<u>2,548,415</u>
	<u>20,670,835</u>	<u>18,516,250</u>
Shareholders' Equity		
Share capital (Note 6)	2,882,342	2,378,167
Retained Earnings (Deficit)	<u>619,854</u>	<u>(287,281)</u>
	<u>3,502,196</u>	<u>2,090,886</u>
	<u>\$ 24,173,031</u>	<u>\$ 20,607,136</u>

Carfinco Inc.
Consolidated Statements of Earnings and Retained Earnings
(unaudited)



	Nine months ended	
	<u>September 30, 2002</u>	<u>August 31, 2001</u>
Revenues		
Interest income	\$ 5,299,251	\$ 3,682,231
Administration fees	<u>1,080,485</u>	<u>1,035,233</u>
	<u>6,379,736</u>	<u>4,717,464</u>
Expenses		
Interest	1,159,984	1,116,965
Provision for credit losses	2,339,961	1,542,377
Advertising and marketing	31,210	27,172
Amortization	48,357	41,554
General and administrative	898,355	701,149
Salaries and benefits	<u>720,899</u>	<u>541,363</u>
	<u>5,198,766</u>	<u>3,970,580</u>
Earnings before income taxes	<u>1,180,970</u>	<u>746,884</u>
Income taxes		
Current	480,268	-
Future	<u>(3,609)</u>	<u>312,476</u>
	<u>483,877</u>	<u>312,476</u>
Net earnings	<u>\$ 697,093</u>	<u>\$ 434,408</u>
<hr/>		
(Deficit), beginning of period	\$ (77,239)	\$ (721,689)
Net earnings	<u>697,093</u>	<u>434,408</u>
Retained Earnings (Deficit), end of period	<u>\$ 619,854</u>	<u>\$ (287,281)</u>
Earnings per share – basic	<u>\$ 0.052</u>	<u>\$ 0.035</u>
Earnings per share – diluted	<u>\$ 0.052</u>	<u>\$ 0.034</u>

Carfinco Inc.
Consolidated Statements of Cash Flows
(unaudited)



	Nine months ended	
	<u>September 30, 2002</u>	<u>August 31, 2001</u>
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	\$ 697,093	\$ 434,408
Adjustments to reconcile net earnings to net cash from operations:		
Provision for credit losses	2,339,961	1,542,377
Amortization	48,357	41,554
Accrued interest	(18,864)	(100,099)
Administration fees receivable	(752,717)	(768,140)
Deferred costs	(99,577)	55,590
Future income taxes	3,609	312,476
Income taxes payable	(54,689)	-
Payables and accruals	273,460	96,208
Other assets	(144,596)	104
	<u>2,292,037</u>	<u>1,614,478</u>
Investing		
Funds advanced on finance receivables	(13,657,433)	(15,942,072)
Principal collections on finance receivables	10,011,812	7,081,483
Purchase of capital assets	(26,287)	(16,036)
	<u>(3,671,908)</u>	<u>(8,876,625)</u>
Financing		
Issuance of long term debt	1,150,000	585,000
Repayment of long term debt	(80,017)	(18,894)
Issuance of share capital	504,175	-
	<u>1,574,158</u>	<u>566,106</u>
Net increase (decrease) in cash and cash equivalents	194,287	(6,696,041)
Cash and cash equivalents		
Beginning of period	<u>(16,746,846)</u>	<u>(9,150,016)</u>
End of period	<u>\$ (16,552,559)</u>	<u>\$ (15,846,057)</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ 534,957</u>	<u>\$ -</u>
Interest paid	<u>\$ 1,091,432</u>	<u>\$ 1,050,420</u>

1. Summary of significant accounting policies

Carfinco Inc. (the "Company") was incorporated under the Business Corporations Act (Ontario) on December 30, 1996. The Company owns 100% of Canadian Automotive Finance Corporation, which is a company incorporated under the Business Corporations Act (Alberta). The Company also owns 0.3% of the outstanding partnership units in Carfinco Limited Partnership, which is a partnership registered under the Limited Partnerships Act (Ontario), and Canadian Automotive Finance Corporation owns the remaining 99.7%. The Company is in the business of providing consumer financing for vehicle purchases.

As stated in the Notice filed in accordance with parts 4 and 8 of Ontario Securities Commission Policy Statement No. 51, the Company has prepared these interim financial statements by comparing the nine-month period ended September 30, 2002 to the nine-month period ended August 31, 2001.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the accounting policies and methods are consistent with those used in the preparation of the Company's most recent annual financial statements for the period ended December 31, 2001.

While management considers this interim disclosure presented to be adequate, these consolidated financial statements and notes should be read in conjunction with the notes included in the Company's December 31, 2001 Annual Report.

2. Finance receivables	September 30 2002	August 31 2001
Principal of finance receivables	\$ 25,837,946	\$ 21,550,729
Accrued interest	367,800	310,099
Finance receivables	26,205,746	21,860,828
Less: allowance for credit losses (Note 3)	(2,585,000)	(1,621,038)
Finance receivables – net	<u>\$ 23,620,746</u>	<u>\$ 20,239,790</u>

3. Allowance for credit losses	September 30 2002	August 31 2001
Allowance, beginning of period	\$ 1,965,000	\$ 1,005,070
Provision for credit losses	2,339,961	1,542,377
Write-offs	(2,223,033)	(1,252,824)
Recoveries	503,072	326,415
Allowance, end of period	<u>\$ 2,585,000</u>	<u>\$ 1,621,038</u>

4. Bank indebtedness	September 30 2002	August 31 2001
Bank credit facility	\$ (16,793,047)	\$ (15,872,133)
Bank balance	240,490	26,076
	<u>\$ (16,552,557)</u>	<u>\$ (15,846,057)</u>

Bank credit facility

The bank credit facility is a demand loan which is the lesser at any time of: a) \$25,000,000 and b) the total of an advance rate applied to the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 1.5%. The bank holds a general security agreement covering all property held by the Company and personal guarantees in the amount of \$1,000,000. The terms of the credit facility provide for certain covenants, all of which the Company was in compliance with at period-end.

5. Long term debt	September 30 2002	August 31 2001
Non-convertible unsecured debentures, bearing interest at 16%, maturing on August 31, 2003	\$ 2,260,000	\$ 960,000
Non-convertible unsecured debenture, bearing interest at 16%, maturing on August 28, 2005	1,350,000	1,500,000
Non-convertible unsecured debenture, bearing interest at 16%, maturing on November 30, 2006	100,000	-
Bank term loan, bearing interest at prime plus 2.5%, amortized over 5 years	-	77,952
Bank term loan, bearing interest at prime plus 2.5%, amortized over 5 years	-	10,463
	<u>\$ 3,710,000</u>	<u>\$ 2,548,415</u>

Carfinco Inc.**Notes to the Consolidated Financial Statements**

Nine month period ended September 30, 2002 and August 31, 2001 (unaudited)

**5. Long term debt (cont'd)**

Principal repayments in each of the next five fiscal years are due as follows:

2002	\$	-
2003		2,260,000
2004		-
2005		1,350,000
2006		100,000
	\$	<u>3,710,000</u>

6. Share capital

Authorized:

Unlimited number of Class A common shares

Issued:	September 30, 2002		August 31, 2001	
	# of shares	amount	# of shares	amount
Balance, beginning of period	12,288,750	\$ 2,378,167	12,288,750	\$ 2,378,167
Issued for cash under stock option plan	867,000	211,675	-	-
Issued for cash on exercise of warrants	1,650,000	292,500	-	-
	14,805,750	2,882,342	12,288,750	2,378,167
Share issue costs	-	-	-	-
Balance, end of period	<u>14,805,750</u>	<u>\$ 2,882,342</u>	<u>12,288,750</u>	<u>\$ 2,378,167</u>

Warrants

On January 14, 1999, in connection with the execution of a non-bank credit facility, the Company issued 1,500,000 warrants to signatories (two of the directors of Carfinco Inc.) of limited recourse personal guarantees of \$1,000,000. The warrants are exercisable into 1 common share per warrant at a price of \$0.18, with an expiry date of January 14, 2004. On May 14, 2002, 1,162,500 of these warrants were exercised for proceeds of \$209,250 and on August 20, 2002 the remaining 337,500 warrants were exercised for proceeds of \$60,750.

On August 31, 2000, in connection with the bank credit facility, as disclosed in Note 6, the Company issued 150,000 warrants to a signatory (a director of Carfinco Inc.) of a limited recourse personal guarantee of \$500,000. The warrants are exercisable into 1 common share per warrant at a price of \$0.15 with an expiry date of August 31, 2005. On August 20, 2002, these warrants were exercised for proceeds of \$22,500.

Stock options

The Company has entered into incentive stock options with directors, officers and employees, the details of which are as follows:

	September 30 2002	August 31 2001
Balance, beginning of period	997,000	1,010,000
Granted	145,000	9,500
Cancelled	(10,000)	(22,500)
Expired	(250,000)	-
Exercised	(867,000)	-
Balance, end of period	<u>15,000</u>	<u>997,000</u>

These options were granted at prices between \$0.15 and \$0.42, and expire between October 3, 2003 and July 27, 2005.

7. Related party transactions

The Company has an agreement with Patuca Corporation ("Patuca") for services provided on an ongoing basis. On May 1, 2002, the fee was increased from \$5,350 to \$18,190 per month. The increase in fees to Patuca, reflect an increase in services provided. The fee represents fair value for services provided. During the nine month period ended September 30, 2002, payments of \$112,350 (nine months ended August 31, 2001 - \$48,150) were made to Patuca and at September 30, 2002, there was \$nil (August 31, 2001 - \$nil) payable to Patuca. The directors and officers of Patuca are also directors and/or officers of Carfinco Inc.

The Company issued debentures in the aggregate principal amount of \$200,000 to associates of a director of Carfinco Inc. During the period, interest payments of \$ 24,022 (nine months ended August 31, 2001 - \$21,041) were made to these debenture holders.

8. Fair value of financial instruments

Refer to the December 31, 2001 Annual Report for disclosure related to financial instruments.

Directors

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

David Prussky
Director
Patca Corporation
Toronto, Ontario

Gordon J. Reykdal
President and Chief Executive Officer
Rentcash Inc.
Edmonton, Alberta

David Rosenkrantz
Director
Patca Corporation
Toronto, Ontario

Simon Serruya
Executive Vice President
CoolBrands International Inc.
Toronto, Ontario

Maurice Kagan
Chief Financial Officer
Residential Equities Real Estate Trust
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 LLP
Scotia Place 1, Suite 2400
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Cassels Brock & Blackwell LLP
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 TSX Venture Exchange
Trading Symbol: YCR

Head Office

Suite 100, 4207 – 98 Street
Edmonton, Alberta T6E 5R7
Telephone: (780) 413-7549
1-888-486-4356
Facsimile: (780) 450-1134
1-888-486-7456
Website: www.carfinco.com
Email: carfinco@carfinco.com