



Carfinco Inc.



President's Message to Shareholders

CARFINCO Inc. is pleased to report the pre-tax earnings for the first quarter of fiscal 2002 have increased over the fourth quarter of fiscal 2001. This represents the 5th consecutive quarter-over-quarter increase in pre-tax earnings.

Principal of finance receivables increased \$9,902,497 (77%) from \$12,848,409 for the first quarter of fiscal 2001 to \$22,750,906 for the first quarter of Fiscal 2002.

The allowance for credit losses increased \$821,930 (82%) from \$1,005,070 at the end of the first quarter of fiscal 2001 to \$1,827,000 at the end of the first quarter of fiscal 2002.

Revenues of \$1,928,679 recorded for the first quarter of fiscal 2002 represents an increase of \$837,348 (77%) over the revenues of \$1,091,331 recorded for the first quarter of 2001.

Pre-tax earnings of \$347,415 for the first quarter of fiscal 2002 represents an increase of \$272,775 (365%) over the \$74,640 reported for the first quarter of fiscal 2001.

While Revenues and Pre-tax earnings increased 77% and 365%, respectively, Expenses increased by a lower 56% (\$564,573), from \$1,016,691 stated for the first quarter of fiscal 2001 to \$1,581,264 for the first quarter of fiscal 2002. The main contributor to the increase in expenses is the provision for credit losses increasing \$352,957 (101%) from \$349,139 for the first quarter of 2001 to \$702,096 for the first quarter of 2002. The increase in the provision for credit losses represents 63% of the total increase in the expenses.

With the finance receivable portfolio increasing, CARFINCO continues to see the benefits of economies of scale, with a lower percentage of operating expenses to average finance receivables.

The Board of Directors has voted to move the fiscal year-end from August 31 to December 31. This will coincide our fiscal quarters with calendar quarters. December 31, 2001 will be the year-end for a transitional year-end period, consisting of this quarter and the month of December 2001. January, February and March 2002 will then become the first quarter of our new fiscal year 2002, as well as, the first quarter of the calendar year 2002.

On behalf of the Company and its Board of Directors,

A handwritten signature in black ink that reads 'Tracy Graf'.

Tracy A. Graf
President and Chief Executive Officer

Results of Operations - Carfinco Inc. reported record earnings before income taxes in the first quarter fiscal 2002 of \$347,415, compared to \$74,640 for the first quarter of fiscal 2000. This represents an increase of \$272,775 (365%) in earnings before income taxes. The after-tax net earnings of \$182,330 for the first quarter of fiscal 2002 results in an annualised return on shareholders equity of 32%.

The Company's revenues increased by \$837,348, or 77%, to \$1,928,679 from the first quarter fiscal 2001 revenues of \$1,091,331. The increase in revenues can be directly attributed to the 77% increase 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 \$564,573, or 56%, to \$1,581,264 from the first quarter fiscal 2001 expenses of \$1,016,691. Interest expense increased by \$91,728 (31%), provision for credit losses increased \$352,957 (101%) and the remaining operational expenses increased \$119,888 (33%). The provision for credit losses expense of \$702,096 is comprised of \$205,962 to increase the non-cash allowance for credit losses and \$496,134 in net write offs.

Carfinco's annualised ratio of operating expenses to average principal of finance receivables for the first quarter of fiscal 2001, decreased to 8.8% from 10.1% for fiscal 2001. The cost ratio is expected to decrease further as a result operational scale and focus on technological initiatives.

Asset Review - Total assets increased by \$1,075,466 to \$21,682,602 at November 30, 2001, an increase of 5% from August 31, 2001. As a percentage of total assets, the non-producing assets have increased from 1.8% to 2.0%.

Carfinco's finance receivables (net) grew during the quarter by \$1,001,551, or 5%, to \$21,241,341. Funds advanced on finance receivables amounted to \$4,245,191 for the first quarter 2002, compared to \$3,211,702 for the first quarter of 2001, an increase of 32%.

The Company's allowance for credit losses was \$1,827,000 at November 30, 2001, up \$205,962, or 13% from the \$1,621,038 at August 31, 2001. Allowance for credit losses, as a percent of finance receivables, was 7.9% at November 30, 2001, compared to 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.

On October 2, 2001, the bank credit facility was increased by \$7,000,000 to \$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 November 30, 2001, a total of \$16,617,963 was outstanding under the credit facility.

During the first quarter of 2002, the Company successfully raised an additional \$100,000 in non-convertible unsecured 16% debentures, bringing the total to \$2,560,000. \$1,060,000 of these debentures mature on June 19, 2002, however, the Company is confident that these debentures will be renewed, on similar terms, prior to the maturity date.

Carfinco Inc.
Consolidated Balance Sheets



	November 30, 2001 <u>(unaudited)</u>	August 31, 2001 <u>(audited)</u>
Assets		
Finance receivables - net (Note 2)	\$ 21,241,341	\$ 20,239,790
Other assets	163,401	37,806
Capital assets	186,258	182,017
Deferred costs	91,602	97,559
Future income taxes	<u>-</u>	<u>49,964</u>
	<u>\$ 21,682,602</u>	<u>\$ 20,607,136</u>
Liabilities		
Bank indebtedness (Note 4)	\$ 16,585,874	\$ 15,846,057
Payables and accruals	92,553	121,778
Income taxes payable	75,000	-
Future income taxes	13,842	-
Long term debt (Note 5)	<u>2,642,117</u>	<u>2,548,415</u>
	<u>19,409,386</u>	<u>18,516,250</u>
Shareholders' Equity		
Share capital	2,378,167	2,378,167
Deficit	<u>(104,951)</u>	<u>(287,281)</u>
	<u>2,273,216</u>	<u>2,090,886</u>
	<u>\$ 21,682,602</u>	<u>\$ 20,607,136</u>

Carfinco Inc.
Consolidated Statements of Earnings and Deficit



	Three months ended November 30 (unaudited)	
	2001	2000
Revenues		
Interest income	\$ 1,603,655	\$ 855,527
Administration fees	325,024	235,804
	<u>1,928,679</u>	<u>1,091,331</u>
Expenses		
Interest	392,369	300,641
Provision for credit losses	702,096	349,139
Advertising and marketing	2,480	-
Amortization	13,203	13,219
General and administrative	272,589	199,046
Salaries and benefits	198,527	154,646
	<u>1,581,264</u>	<u>1,016,691</u>
Earnings before income taxes	<u>347,415</u>	<u>74,640</u>
Income taxes		
Current	101,279	-
Future	63,806	31,832
	<u>165,085</u>	<u>31,832</u>
Net earnings	<u>\$ 182,330</u>	<u>\$ 42,808</u>
<hr/>		
Deficit, beginning of period	\$ (287,281)	\$ (758,452)
Net earnings	<u>182,330</u>	<u>42,808</u>
Deficit, end of period	<u>\$ (104,951)</u>	<u>\$ (715,644)</u>
Earnings per share – basic	<u>\$ 0.015</u>	<u>\$ 0.003</u>
Earnings per share – diluted	<u>\$ 0.013</u>	<u>\$ 0.003</u>

Carfinco Inc.
Consolidated Statements of Cash Flows



	Three months ended November 30 (unaudited)	
	2001	2000
Increase (decrease) in cash and cash equivalents		
Operating		
Net earnings	\$ 182,330	\$ 42,808
Adjustments to reconcile net earnings to net cash from operations:		
Provision for credit losses	702,096	349,139
Amortization	13,203	13,219
Accrued interest	(7,337)	(10,000)
Administration fees receivable	(262,649)	(170,409)
Deferred costs	5,957	(3,428)
Future income taxes	63,806	31,832
Income taxes payable	75,000	-
Payables and accruals	(29,225)	(319,006)
Other assets	(125,595)	(7,500)
	<u>617,586</u>	<u>(73,345)</u>
Investing		
Funds advanced on finance receivables	(4,245,191)	(3,211,702)
Principal collections on finance receivables	2,811,530	1,970,805
Purchase of capital assets	(17,444)	(5,851)
	<u>(1,451,105)</u>	<u>(1,246,748)</u>
Financing		
Issuance of long term debt	100,000	-
Repayment of long term debt	(6,298)	(6,298)
	<u>93,702</u>	<u>(6,298)</u>
Net decrease in cash and cash equivalents	(739,817)	(1,326,391)
Cash and cash equivalents		
Beginning of period	(15,846,057)	(7,823,625)
End of period	<u>\$ (16,585,874)</u>	<u>\$ (9,150,016)</u>
Supplemental cash flow information:		
Interest paid	<u>\$ 369,155</u>	<u>\$ 357,713</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 is in the business of providing consumer financing for vehicle purchases.

The directors of the Company have approved the change of the corporate fiscal year-end, from August 31 to December 31. The transition year of the Company will end December 31, 2001 and the Company will file audited annual financial statements for the four months ended December 31, 2001. The Company has prepared these interim financial statements based on the old fiscal year to conform with regulatory requirements. The Company will prepare interim financial statements for fiscal 2002 based on the new fiscal year and these quarterly statements will be as at each of March 31, June 30 and September 30.

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 year ended August 31, 2001, except as follows:

Finance receivables

The accounting policy for finance receivables now reads as follows, "Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses."

Allowance for credit losses

The accounting policy for allowance for credit losses now reads as follows, "The management of the Company establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of accumulated specific and general components, which are deducted from the finance receivable portfolio.

The Company considers a finance receivable to be impaired when it is no longer reasonably assured of the timely collection of the full amount of principal and interest. The Company's finance receivable portfolio is comprised of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry and geographic region, and as such, the recognition of impairment is estimated collectively for the group. The estimated impairment is determined by assessing the individual loans in arrears, the perceived effect of current economic conditions or other circumstances on the remaining loans, the historical industry ratios of write offs, and the Company's current write off and recovery experience.

Interest income is accrued and earned in accordance with the terms of the original loan agreement on all finance receivables which have not been individually identified as impaired."

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 August 31, 2001 Annual Report.

2. Finance receivables

	November 30, 2001	August 31, 2001	November 30, 2000
Principal of finance receivables	\$ 22,750,906	\$ 21,550,729	\$ 12,848,409
Accrued interest	317,435	310,099	210,000
Finance receivables	23,068,341	21,860,828	13,058,409
Less: allowance for credit losses (Note 3)	(1,827,000)	(1,621,038)	(1,005,070)
Finance receivables – net	<u>\$ 21,241,341</u>	<u>\$ 20,239,790</u>	<u>\$ 12,053,339</u>

Carfinco Inc.
Notes to the Consolidated Financial Statements

Three month period ended November 30, 2001 and 2000 (unaudited)



3. Allowance for credit losses	Three Months	Year Ended	Three Months
	Ended Nov. 30, 2001	Aug. 31, 2001	Ended Nov. 30, 2000
Allowance, beginning of period	\$ 1,621,038	\$ 900,000	\$ 900,000
Provision for credit losses	702,096	1,891,515	349,139
Write-offs	(611,992)	(1,587,700)	(334,876)
Recoveries	115,858	417,223	90,807
Allowance, end of period	<u>\$ 1,827,000</u>	<u>\$ 1,621,038</u>	<u>\$ 1,005,070</u>

4. Bank indebtedness	November 30,	August 31,
	2001	2001
Bank credit facility	\$ (16,617,963)	\$ (15,872,133)
Bank balance (Bank indebtedness)	32,089	26,076
	<u>\$ (16,585,874)</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	November 30,	August 31,
	2001	2001
Non-convertible unsecured debentures, bearing interest at 16%, maturing on June 19, 2002	\$ 1,060,000	\$ 960,000
Non-convertible unsecured debenture, bearing interest at 16%, maturing on August 28, 2005	1,500,000	1,500,000
Bank term loan, bearing interest at prime plus 2.5%, amortized over 5 years	72,384	77,952
Bank term loan, bearing interest at prime plus 2.5%, amortized over 5 years	9,733	10,463
	<u>\$ 2,642,117</u>	<u>\$ 2,548,415</u>

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

2002	\$ 1,085,200
2003	25,200
2004	25,200
2005	1,512,815
2006	-

6. Related party transactions

The Company has an agreement with Patuca Corporation for services provided on an ongoing basis for a fee of \$5,350 per month. During the period, payments of \$16,050 (fiscal 2001 - \$64,200) were made to Patuca and at November 30, 2001, there was \$nil (August 31, 2001 - \$nil) payable to Patuca. Patuca Corporation is controlled by individuals who are directors and/or shareholders of Carfinco Inc.

In connection with the issuance of debentures pursuant to a trust indenture, debentures in the aggregate principal amount of \$200,000 were issued to associates of a director of Carfinco Inc. During the period, interest payments of \$8,066 (fiscal 2001 - \$24,620) were made to these debenture holders.

7. Fair value of financial instruments

Refer to the August 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

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

David Rosenkrantz
Director
Patca Corporation
Toronto, Ontario

Simon Serruya
Executive Vice President
CoolBrands International 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

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Stock Exchange Listing

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