

CARFINCO INCOME FUND



ANNUAL REPORT 2003

Report to Unitholders

When describing fiscal 2003, caution, analysis, growth and expansion are all words that come to mind. During the first two quarters of fiscal 2003, the net finance receivables decreased as competitive, industry and economic factors dictated caution, perseverance and analysis. The last two quarters of fiscal 2003 were witness to growth in the net finance receivables, as geographic expansion and product diversification fueled increased loan originations.

During the fourth quarter of fiscal 2003, the net finance receivables increased by \$2,105,278 compared to an increase of \$583,891 in the third quarter of fiscal 2003, a decrease of \$258,373 in the second quarter of fiscal 2003 and a decrease of \$884,287 in the first quarter of fiscal 2003. Overall, the net finance receivables increased \$1,546,509, or 6.5%, from the \$23,806,756, as at December 31, 2002, to \$25,353,265, as at December 31, 2003. The \$25,353,265 also represents the highest net finance receivables balance in the Fund's history.

Interest income of \$7,264,129 for fiscal 2003 has increased \$104,409, or 1.5%, from the interest income of \$7,159,720 stated for fiscal 2002. Administration fees of \$959,058 for fiscal 2003 decreased by \$447,604, or 31.8%, from the administration fees of \$1,406,662 stated for fiscal 2002. During fiscal 2003, a change in accounting policy was adopted that affects the treatment and presentation of administration fees charged to the dealer. There is now a deferred administration fees line under liabilities on the balance sheet. The deferred administration fees for fiscal 2003 are \$286,159 versus \$nil for fiscal 2002. Total revenues of \$8,223,187 for fiscal 2003 represent a decrease of \$343,195, or 4.0%, from the total revenues of \$8,566,382 stated for fiscal 2002. The decrease in total revenues is primarily due to the change in how the administration fees are accounted for and to the decreased loan originations in the first two quarters of fiscal 2003.

During fiscal 2003, the Fund distributed a total of \$0.03 per unit held, in the form of cash. The Fund also distributed \$0.04375 per unit held, in the form of additional trust units, based on a valuation of \$0.35 cents per unit. The units issued were immediately consolidated into the outstanding units; thereby, the number of outstanding units in the Fund remained the same. As well, the percentage of ownership for each unitholder of the Fund was not affected by the unit distribution and the subsequent consolidation. The total distributable income was \$1,093,031, as at December 31, 2003, which is \$183,402 more than the net earnings of \$909,629. The primary reason for the difference is the tax treatment on the gain recognized upon termination of two interest rate swap agreements in fiscal 2003. The gain is a taxable transaction during fiscal 2003, whereas, for accounting purposes, the gain is being amortized over the original terms of the swap, thereby creating a difference between our net earnings and taxable income.

The earnings before income tax of \$909,629 stated for fiscal 2003, represents a decrease of \$87,797, or 8.8%, from the earnings before income tax of \$997,426 stated for fiscal 2002. Excluding the amortized financing fees of \$347,625, directly related to the reorganization of the company into an income fund, the earnings before income tax for fiscal 2003 would have been \$1,257,254, an increase of \$259,828 or 26.0% from fiscal 2002. The costs associated with converting to an income fund were fully amortized at the end of August 2003.

Expenses of \$1,665,027 for the fourth quarter of fiscal 2003, represents a decrease of \$262,389, or 13.6%, from the \$1,927,416 for the third quarter of fiscal 2003, a decrease of \$114,522, or 6.4%, from the \$1,779,549 for the second quarter of fiscal 2003 and a decrease of \$276,539, or 14.2%, from the \$1,941,566 stated for the first quarter of fiscal 2003. The total expenses of \$7,313,558 stated for fiscal 2003, represent a decrease of \$255,398, or 3.4%, from the expenses of \$7,568,956 stated for fiscal 2002.

Loan originations continue to be strong as our expansion continues in Ontario and the Maritimes and an emphasis is placed on increasing originations in the Fund's more mature markets. Carfinco now has vehicle dealerships utilizing its financing programs in all provinces, with the exception of Saskatchewan, Quebec and Newfoundland.

Thank you for your continued support,

Tracy A. Graf
President and Chief Executive Officer

Overview

Carfinco Income Fund (the "Fund") is an unincorporated open-end mutual fund trust established under the laws of the Province of Ontario by a Deed of Trust made as of August 26, 2002. The Fund owns 100% of Carfinco Holdings Trust, a wholly-owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc., a wholly-owned subsidiary, established under the laws of Ontario. Carfinco Holdings Trust holds an 86.04% interest, and is the limited partner of Carfinco Limited Partnership, and Carfinco Inc. ("Carfinco") holds the remaining 13.96% interest, and is the general partner of Carfinco Limited Partnership. Carfinco Limited Partnership is a continuation of the business formerly conducted by Carfinco Inc. and its wholly-owned subsidiary, Canadian Automotive Finance Corporation.

The Fund, through Carfinco Limited Partnership, purchases loans, originated by select independent and franchise vehicle dealers to consumers buying late model used automobiles. Since commencing the purchase of contracts in March 1997, the Fund (and formerly, Carfinco) has acquired more than \$16.8 million in repair finance contracts and \$73.1 million in vehicle purchase contracts. The Fund targets borrowers who are typically unable to obtain financing from traditional sources.

To fund the acquisition of receivables, the Fund utilizes its borrowings under its credit facility, as well as, borrowings through subordinated debenture issuances. The Fund 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

The Fund reported earnings before income taxes of \$909,629 for the twelve-month period ended December 31, 2003, as compared the \$997,426 for the twelve months ended December 31, 2002. Overall, earnings before income taxes decreased by \$87,797, or 8.8%.

Revenues. The Fund's revenues for fiscal 2003 were \$8,223,187, compared to \$8,566,382 for fiscal 2002.

Interest income increased by \$104,409, or 1.5%, from \$7,159,720 during fiscal 2002 to \$7,264,129 during fiscal 2003. These results are lower than expected when compared to the year-over-year increase in the principal of finance receivables of \$1,319,664, or 5.0%. This difference is due to the increase in portfolio size occurring in the last quarter of the year.

Administration fee income decreased by \$447,604, or 31.8%, from \$1,406,662 during fiscal 2002 to \$959,058 during fiscal 2003. The drop in administration fee income is primarily due to a change in accounting policy. Effective January 1, 2003, the Fund commenced the deferral of fees charged to the dealer on the origination of finance receivables. The fee will be recorded to income on a straight-line basis over the term of the specific finance receivable. Previously, the fee was recognized at the origination of the finance receivable. As a result of this change in policy, \$286,159 in administration fees were deferred on the balance sheet in fiscal 2003. The remaining \$161,445 of the decrease in administration fee income can mainly be attributed to the overall decrease in loan originations during fiscal 2003.

Revenues are anticipated to move 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.

Interest. The interest expense increased by \$162,044, or 10.7%, from \$1,511,118 for fiscal 2002 to \$1,673,162 for fiscal 2003. The increase is due to a higher average subordinated debt balance during 2003 and to an increase in the average prime interest rate from fiscal 2002 to fiscal 2003.

Financing Fees. The financing fees increased by \$263,528, or 209.2%, from \$125,997 for fiscal 2002 to \$389,525 for fiscal 2003. The increase is due to additional financing fees incurred as part of the reorganization to an income fund. Of the \$389,525 incurred in fiscal 2003, \$347,625 related specifically to

the reorganization. The costs related to converting to an income fund were fully amortized during the first three quarters of fiscal 2003.

Provision for Credit Losses. The provision for credit losses for fiscal 2003 totalled \$2,434,002, compared to \$3,595,452 for fiscal 2002, representing a decrease of \$1,161,450, or 32.3%. The \$2,434,002 provision is comprised of \$2,889,002 in net write offs and a \$235,000 decrease in the overall allowance for credit losses (including the dealer reserve).

Amortization. Amortization expense for the twelve-month period ended December 31, 2003 totalled \$65,427, compared to \$63,788 during fiscal 2002. Purchases of capital assets were \$54,312 during fiscal 2003, compared to \$32,682 for fiscal 2002.

General and administrative. General and administrative expenses increased \$478,841, or 21.1%, from \$2,272,601 for fiscal 2002 to \$2,751,442 for fiscal 2003. The majority of the increase in general and administrative expenses is due to salaries and benefits costs attributed to increased staffing levels. A portion of the increase in general and administrative expenses is a reflection of the growth in the finance receivables portfolio.

Asset Review

Total assets increased by \$1,072,123 to \$25,560,901 at December 31, 2003 from \$24,488,778 at December 31, 2002, an increase of 4.4%. Non-producing assets decreased \$474,386 from \$682,022 at December 31, 2002 to \$207,636 at December 31, 2003. The decrease in non-producing assets is due to the receipt, in fiscal 2003, of \$181,000 in income taxes receivable and the amortization of deferred costs associated with the restructuring of the debt facilities in fiscal 2002. At December 31, 2003, non-producing assets represented 0.8% (December 31, 2002 – 2.8%) of the total assets.

Finance Receivables. All finance receivables are secured, under the applicable provincial personal property registry, by motor vehicle collateral. The increase in the size of the finance receivable portfolio is due to the Fund's expansion in the non-prime sector of the auto finance industry and the overall buoyancy of the used car market. The Fund's strategy continues to be that of the alternative lender to major financial institutions in the higher risk used vehicle finance market.

The finance receivables (net) grew during fiscal 2003 by \$1,546,509, or 6.5%, to \$25,353,265. The actual principal of finance receivables (before addition of accrued interest and deduction of allowance for credit losses) grew by \$1,319,664, or 5.0%, during this same period. Funds advanced on finance receivables amounted to \$16,536,163 for fiscal 2003, compared to \$18,077,736 for fiscal 2002, a decrease of \$1,541,573, or 8.5%.

The Fund continues to adhere to consistent underwriting standards to achieve portfolio growth. This consistency helps build relationships with our dealer network, as well as, establish a consistent historical loss trend.

Allowance for Credit Losses. 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 Fund believes that the allowance for credit losses is currently adequate to absorb potential losses in the finance receivable portfolio.

The Fund's allowance for credit losses, including dealer reserve, was \$2,830,000 at December 31, 2003, down \$235,000, or 7.7%, from the \$3,065,000 at December 31, 2002. During this same period, the principal of finance receivables increased 5.0%. Allowance for credit losses as a percent of finance receivables was 10.0% at December 31, 2003 compared to 11.4% at December 31, 2002 and 8.4% at December 31, 2001. The Fund will continue to monitor its credit loss experience and make additional provisions, as it deems appropriate.

Liquidity and Capital Resources

The Fund'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 Fund'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 Fund provide the needed capital to fund the anticipated expansion of the Fund, loan purchases, and investments in operating infrastructure for fiscal 2004.

Credit Facility. The Fund executed a credit facility on November 27, 2002 with a national association of a foreign bank. The amount of borrowings available under this facility is \$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 December 31, 2003, a total of \$17,396,226 was outstanding under the credit facility. The termination date of the credit facility is August 31, 2004.

Subordinated Debt. As of December 31, 2003, the Fund had outstanding \$3,925,000 of 16% non-convertible subordinated debt, an increase of \$215,000 over the \$3,710,000 outstanding at December 31, 2002. Of the total subordinated debt outstanding, \$2,475,000 was scheduled to mature on February 18, 2004. On February 9, 2004, the Fund finalized the renewal of all of these debentures and their new maturity date is February 18, 2006. The remaining \$1,450,000 in subordinated debt matures on December 27, 2007.

Risk Management

Liquidity Risk. As is customary in the Fund's industry, the credit facility and subordinated debt instruments need to be renewed on a periodic basis. The Fund has been successful in renewing and expanding these facilities on a periodic basis. If the Fund was unable to renew these facilities on acceptable terms, there could be a material adverse effect on the Fund's financial position, results of operations and liquidity.

Credit Risk. Credit risk management is the management of the credit risk associated with the total finance receivable portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Fund. In the event of payment default, the collateral value of the financed vehicle may not cover the outstanding contract balance and costs of recovery.

The Fund originates transactions in a relatively high-risk segment of the consumer finance industry, and, therefore, write offs are anticipated. The management of the Fund 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 Fund reviews static pool origination, historical industry ratios of write offs, current write offs and recovery experience, estimates of the underlying collateral value, and economic conditions and trends to make the necessary judgments as to the appropriateness of the allowance for loan losses. Although the Fund uses many resources to assess the adequacy of loss reserves, there is no precise method for estimating the future losses in the finance receivable portfolio.

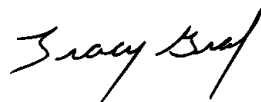
Interest Rate Risk. The Fund's earnings are affected by changes in interest rates as a result of its dependence upon a credit facility, which bears interest at a floating rate. The receivable portfolio bears interest at a fixed rate, therefore, the Fund carries the risk of smaller interest rate spreads in the event market interest rates increase.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto and other financial information enclosed have been prepared by, and are the responsibility of, the management of Carfinco Income Fund. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments when appropriate.

The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee, which is comprised of three non-management Trustees, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee.

The financial statements have been audited by Grant Thornton LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards.



Tracy A. Graf
Chief Executive Officer



Troy S.F. Graf
Chief Financial Officer

Independent Auditors' Report

To the Unitholders of
Carfinco Income Fund

We have audited the consolidated balance sheets of Carfinco Income Fund as at December 31, 2003 and 2002 and the consolidated statements of earnings and equity and consolidated statements of cash flows for each of the periods ended December 31, 2003 and 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and cash flows for each of the periods ended December 31, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.



Edmonton, Canada
February 6, 2004

Chartered Accountants

Carfinco Income Fund
Consolidated Balance Sheets



	<u>December 31</u> <u>2003</u>	<u>December 31</u> <u>2002</u>
Assets		
Finance receivables (Note 5)	\$ 28,183,265	\$ 26,871,756
Allowance for credit losses (Note 6)	(2,610,000)	(3,065,000)
Dealer reserve (Note 7)	<u>(220,000)</u>	<u>-</u>
Finance receivables – net	<u>25,353,265</u>	<u>23,806,756</u>
Other assets	31,526	19,544
Capital assets (Note 8)	145,976	157,091
Deferred costs	30,134	324,387
Income taxes receivable	<u>-</u>	<u>181,000</u>
	<u>207,636</u>	<u>682,022</u>
	<u>\$ 25,560,901</u>	<u>\$ 24,488,778</u>
Liabilities		
Bank indebtedness (Note 9)	\$ 17,093,374	\$ 17,290,852
Payables and accruals	294,239	449,114
Dealer participation (Note 10)	233,025	-
Deferred administration fees	286,159	-
Deferred gain (Note 11)	184,045	-
Long term debt (Note 12)	<u>3,925,000</u>	<u>3,710,000</u>
	<u>22,015,842</u>	<u>21,449,966</u>
Unitholders' Equity		
Fund unit equity (Note 13)	<u>3,545,059</u>	<u>3,038,812</u>
	<u>\$ 25,560,901</u>	<u>\$ 24,488,778</u>

Commitments (Note 17)

On behalf of the Board of Trustees


 _____ Trustee


 _____ Trustee

See accompanying notes to the consolidated financial statements.

Carfinco Income Fund
Consolidated Statements of Earnings and Equity



	<u>December 31</u> <u>2003</u>	<u>December 31</u> <u>2002</u>
Revenues		
Interest income	\$ 7,264,129	\$ 7,159,720
Administration fees	<u>959,058</u>	<u>1,406,662</u>
	<u>8,223,187</u>	<u>8,566,382</u>
Expenses		
Interest	<u>1,673,162</u>	1,511,118
Financing fees	<u>389,525</u>	125,997
Provision for credit losses	<u>2,434,002</u>	3,595,452
Amortization	<u>65,427</u>	63,788
General and administrative	<u>2,751,442</u>	<u>2,272,601</u>
	<u>7,313,558</u>	<u>7,568,956</u>
Earnings before income taxes	<u>909,629</u>	<u>997,426</u>
Income taxes (Note 16)		
Current	-	276,754
Future	<u>-</u>	<u>(22,041)</u>
	<u>-</u>	<u>254,713</u>
Net earnings	<u>\$ 909,629</u>	<u>\$ 742,713</u>
<hr/>		
Equity, beginning of year	\$ 3,038,812	\$ 2,300,928
Net earnings	909,629	742,713
Change in fund units/ shares in year (Note 13)	<u>(403,382)</u>	<u>(4,829)</u>
Equity, end of year	<u>\$ 3,545,059</u>	<u>\$ 3,038,812</u>
<hr/>		
Earnings per fund unit/share		
Basic (Note 18)	<u>\$ 0.06</u>	<u>\$ 0.06</u>
Diluted (Note 18)	<u>\$ 0.06</u>	<u>\$ 0.05</u>

See accompanying notes to the consolidated financial statements.

Carfinco Income Fund
Consolidated Statements of Cash Flows



	<u>December 31</u> <u>2003</u>	<u>December 31</u> <u>2002</u>
Increase (decrease) in cash and cash equivalents:		
Operating		
Net earnings	\$ 909,629	\$ 742,713
Adjustments to reconcile net earnings to net cash from operations:		
Provision for credit losses	2,434,002	3,595,452
Amortization	65,427	63,788
Accrued interest	8,155	(77,448)
Administration fees receivable	(547,726)	(905,205)
Deferred administration fees	286,159	-
Deferred costs	294,253	(237,330)
Deferred gain	184,045	-
Future income taxes	-	(22,041)
Income taxes receivable/payable	181,000	(258,259)
Payables and accruals	(154,875)	362,518
Other assets	(11,982)	35,384
	<u>3,648,087</u>	<u>3,299,572</u>
Investing		
Funds advanced on finance receivables	(16,536,163)	(18,077,736)
Principal collections on finance receivables	13,328,248	13,201,686
Purchase of capital assets	(54,312)	(32,682)
	<u>(3,262,227)</u>	<u>(4,908,732)</u>
Financing		
Issuance of long term debt	215,000	5,160,000
Repayment of long term debt	-	(4,090,017)
Issuance of share capital	-	381,925
Repayment of share purchase financing	41,241	-
Fund restructuring costs	-	(268,188)
Fund trust unit cash distribution	(444,623)	(118,566)
	<u>(188,382)</u>	<u>1,065,154</u>
Net increase (decrease) in cash and cash equivalents	197,478	(544,006)
Bank Indebtedness		
Beginning of year	<u>(17,290,852)</u>	<u>(16,746,846)</u>
End of year	<u>\$ (17,093,374)</u>	<u>\$ (17,290,852)</u>
Supplemental cash flow information:		
Income taxes paid	<u>\$ -</u>	<u>\$ 534,957</u>
Interest paid	<u>\$ 1,671,270</u>	<u>\$ 1,501,336</u>
Non-cash investing and financing activities:		
Shares issued by purchase financing	<u>\$ -</u>	<u>\$ 128,550</u>

See accompanying notes to the consolidated financial statements.

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



1. Organization of the fund and description of the business

Carfinco Income Fund (the "Fund") is an unincorporated open-end mutual fund trust established under the laws of the Province of Ontario by a Deed of Trust made as of August 26, 2002. The Fund owns 100% of Carfinco Holdings Trust ("CHT"), a wholly-owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc. ("CAR"), a wholly-owned subsidiary, established under the laws of Ontario. CHT holds 86.04% and is the limited partner of Carfinco Limited Partnership ("Carfinco LP") and CAR holds the remaining 13.96% and is the general partner of Carfinco LP. Carfinco LP is a continuation of the business formerly conducted by Carfinco Inc. ("Carfinco") and its wholly-owned subsidiary Canadian Automotive Finance Corporation. Carfinco LP is in the business of providing consumer financing for vehicle purchases.

The units of the Fund are publicly traded on the TSX Venture Exchange, under the symbol "CFN.UN".

2. Summary of significant accounting policies

The consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles and are as follows:

Basis of consolidation

These financial statements include the accounts of the Fund, CHT, CAR and Carfinco LP. All inter-company accounts and transactions have been eliminated on consolidation. Any subsequent reference to the Fund within the Notes to the Consolidated Financial Statements refers to the consolidated Fund.

Use of estimates

In preparing financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates relates to the determination of the allowance for credit losses and related reserves. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, net of bank overdrafts and the bank credit facility. Debentures and other long term borrowings are considered to be financing activities.

Finance receivables

Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses and dealer reserves.

Revenue recognition

Interest income is recorded on an accrual basis. Accrual of interest income is suspended on finance receivables classified as nonperforming. A finance receivable is classified as nonperforming if it is 90 or more days contractually delinquent or otherwise identified by management.

Fee income charged to the customer on the origination of finance receivables is recognized when the finance receivable is recorded. Fee income charged to the dealer on the origination of finance receivables is deferred. These deferred fees are recognized as income on a straight-line basis over the term of the specific finance receivable. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

Allowance for credit losses

The management of the Fund 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. In addition to the allowance for credit losses, a dealer reserve has been established using dealer discounts to absorb potential credit losses. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the reserve.

The Fund'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 evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements are determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write offs, and the Fund's current write off and recovery experience.

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



2. Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded at cost. Capital assets are amortized over their estimated useful lives, using the following rates and methods:

Computer and office equipment	30%, declining balance
Computer software	Straight-line over a five year period
Furniture and fixtures	20%, declining balance
Leasehold improvements	Straight-line over the term of the related lease

Amortization is recorded at one-half of the above rates in the year of acquisition on all capital assets, except computer software and leasehold improvements.

Income taxes

The Fund is a "unit trust" for income tax purposes. As such, the Fund is taxed on any taxable income not allocated to unitholders. Under the terms of the Deed of Trust, all or virtually all of the taxable income will be allocated to unitholders resulting in no income tax expense for the Fund.

The Fund follows the liability method of accounting for income taxes for its incorporated subsidiary. Under this method, the Fund recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

Deferred costs

The costs of obtaining debt financing are deferred and amortized to financing fees on a straight-line basis over the terms of the debt. During fiscal 2003, there were additions to deferred costs of \$95,272 (fiscal 2002 - \$363,327) and amortization to financing fees of \$389,525 (fiscal 2002 - \$125,997).

Dealer participation

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can participate in a portion of the collections from these finance receivables. The dealer participation liability represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual participation exceeds or is less than this participation liability.

Derivative financial instruments

The Fund utilizes interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-term debt. These swap agreements require the monthly exchange of payments without the exchange of the notional principal amount on which the payments are based. These interest rate swap agreements are designated as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

A gain or loss on termination of an interest rate swap agreement is deferred on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreements. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of earnings at the time of extinguishment.

Stock based compensation

In fiscal 2002, Carfinco had a stock option plan, which is described in Note 13. Carfinco followed the intrinsic value based method of accounting for such awards; consequently, no compensation expense was recognized for stock options as the exercise price was set at the market price on the issue date of the awards. Consideration received by Carfinco on the exercise of stock options was credited to share capital/Fund unit equity.

The Fund does not currently have a unit based compensation plan.

Distributions to unitholders

The Fund will distribute all or virtually all of its distributable cash each year, net of any reserve deemed prudent by the trustees of the Fund. Distributable cash is currently determined by the trustees as net earnings for the year of the Fund, adjusted for non-cash items, and further adjusted by amounts reinvested by the Fund to sustain investing activities and growth.

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



3. Accounting change

Commencing on January 1, 2003, the Fund commenced the deferral of fees charged to the dealer on the origination of finance receivables. The fee, which is based on a percentage of the finance receivable originated, is recorded to income on a straight-line basis over the term of the specific finance receivable. Previously, the fee was recognized at the origination of the finance receivables. This accounting change has been applied prospectively without restatement of prior periods, in accordance with CICA Handbook section 1100. The cumulative impact of the accounting change for the year ended December 31, 2003 was a decrease of administration fee income of \$286,159 on the Consolidated Statement of Earnings and Equity and an increase in deferred administration fees of \$286,159 on the Consolidated Balance Sheet.

4. Reorganization of capital structure

Pursuant to a Deed of Trust dated August 26, 2002, the Fund was established. Pursuant to a plan of arrangement, 100% of the common shares of Carfinco were exchanged, on a one for one basis, into common trust units of Carfinco Income Fund. The effective date of the arrangement was November 27, 2002.

This reorganization of the capital structure of Carfinco has been accounted for using the continuity of interests method of accounting, whereby the Fund is treated as a continuation of Carfinco.

5. Finance receivables

Finance receivables consist of conditional sales contracts, which have terms of 12 to 60 months with fixed rates of interest. Each individual finance receivable is collateralized by a vehicle.

The contractual payments, including principal and interest, and the average stated interest rates, are due in the years as follows:

	<u>December 31</u> <u>2003</u>	<u>Average Stated</u> <u>Interest Rate</u>	<u>December 31</u> <u>2002</u>	<u>Average Stated</u> <u>Interest Rate</u>
2003			\$ 14,144,888	29.5%
2004	\$ 14,538,103	29.4%	12,689,096	29.5%
2005	12,418,617	29.4%	9,252,767	29.5%
2006	8,946,604	29.3%	3,876,640	29.5%
2007	5,399,195	29.3%	419,974	29.5%
2008	<u>2,219,729</u>	29.5%	<u>-</u>	
Gross finance receivables	43,522,248		40,383,365	
Unearned interest income	<u>(15,757,212)</u>		<u>(13,937,993)</u>	
Principal of finance receivables	27,765,036		26,445,372	
Accrued interest	<u>418,229</u>		<u>426,384</u>	
Finance receivables	<u>\$ 28,183,265</u>		<u>\$ 26,871,756</u>	

The Fund's experience has shown that the actual contractual payment stream will vary depending on a number of variables. These variables include prepayment rates, charge offs and deferrals. Accordingly, the maturities of finance receivables shown in the table above are not to be regarded as a forecast of future cash collections.

As of December 31, 2003 and December 31, 2002, the amount of principal of finance receivables classified as nonperforming amounted to \$74,075 and \$181,743, respectively. These finance receivables have been fully provided for in the allowance for credit losses.

6. Allowance for credit losses

	<u>December 31</u> <u>2003</u>	<u>December 31</u> <u>2002</u>
Allowance, beginning of year	\$ 3,065,000	\$ 1,965,000
Provision for credit losses	2,434,002	3,595,452
Write offs	(3,567,823)	(3,175,852)
Recoveries	678,821	680,400
Allowance, end of year	<u>\$ 2,610,000</u>	<u>\$ 3,065,000</u>

7. Dealer reserve

	<u>December 31</u> <u>2003</u>	<u>December 31</u> <u>2002</u>
Reserve, beginning of year	\$ -	\$ -
Reserve on new volume	232,241	-
Write offs	(12,241)	-
Recoveries	-	-
Reserve, end of year	<u>\$ 220,000</u>	<u>\$ -</u>

Carfinco Income Fund
Notes to the Consolidated Financial Statements

December 31, 2003



8. Capital assets

	2003		
	Cost	Accumulated Amortization	Net Book Value
Computer and office equipment	\$ 155,144	\$ 89,794	\$ 65,350
Computer software	152,611	112,549	40,062
Furniture and fixtures	70,157	34,248	35,909
Leasehold improvements	15,133	10,478	4,655
	<u>\$ 393,045</u>	<u>\$ 247,069</u>	<u>\$ 145,976</u>

	2002		
	Cost	Accumulated Amortization	Net Book Value
Computer and office equipment	\$ 123,302	\$ 79,933	\$ 43,369
Computer software	152,362	78,424	73,938
Furniture and fixtures	64,735	31,122	33,613
Leasehold improvements	12,345	6,174	6,171
	<u>\$ 352,744</u>	<u>\$ 195,653</u>	<u>\$ 157,091</u>

9. Bank indebtedness

	December 31 2003	December 31 2002
Bank credit facility	\$ (17,396,226)	\$ (17,726,512)
Bank balance	<u>302,852</u>	<u>435,660</u>
	<u>\$ (17,093,374)</u>	<u>\$ (17,290,852)</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 stated termination date of the credit facility is August 31, 2004.

The collateral security lodged by the Fund to support the credit facility is a general security agreement covering all property held by the Fund and personal guarantees in the amount of \$1,000,000 provided by two trustees of the Fund.

The terms of the credit facility provide for certain covenants, all of which the Fund was in compliance with at December 31, 2003.

10. Dealer participation

	December 31 2003	December 31 2002
Dealer participation, beginning of year	\$ -	\$ -
Dealer participation on new volume	233,025	-
Advances	-	-
Dealer participation, end of year	<u>\$ 233,025</u>	<u>\$ -</u>

11. Derivative financial instruments

In the normal course of business, the Fund commenced the utilization of interest rate swap agreements, which will limit interest rate risk.

On June 10, 2003, the Fund entered into two interest rate swap agreements with a combined notional amount of \$15,000,000. On November 12, 2003, these agreements were terminated and a gain of \$116,000 was realized on a five year agreement with a notional amount of \$5,000,000 and a gain of \$77,000 was realized on a three year agreement with a notional amount of \$10,000,000. Upon termination, the five year agreement had 56 months remaining on the term of the original contract life and the three year agreement had 32 months remaining on the term of the original contract life.

12. Long term debt

	December 31 2003	December 31 2002
16% debentures, maturing on February 18, 2004	\$ 2,475,000	\$ 2,260,000
16% debenture, maturing on December 27, 2007	1,350,000	1,350,000
16% debenture, maturing on December 27, 2007	<u>100,000</u>	<u>100,000</u>
	<u>\$ 3,925,000</u>	<u>\$ 3,710,000</u>

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



12. Long term debt (continued)

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

2004	\$	2,475,000
2005		-
2006		-
2007		<u>1,450,000</u>
	\$	<u>3,925,000</u>

Debentures

During the year, the Fund issued additional non-convertible debentures for proceeds of \$215,000. During fiscal 2002, the Fund issued additional non-convertible debentures for proceeds of \$1,300,000. As part of the reorganization dated November 27, 2002, the debentures held by Carfinco were redeemed and subsequently reissued by the Fund with a maturity date of February 18, 2004.

The debentures are unsecured, mature on February 18, 2004 and bear interest at 16% per annum. The interest payments are payable monthly in arrears. The debentures may be redeemed, in whole or part, by the Fund during the term of the debentures, at the option of the Fund. As of February 9, 2004, all of the debentures were renewed for an additional two year term and their new maturity date is February 18, 2006.

Debenture

During fiscal 2002, the Fund redeemed \$150,000 of a \$1,500,000 non-convertible debenture. As part of the reorganization dated November 27, 2002, the debenture(s) held by Carfinco were redeemed and subsequently reissued by the Fund with a maturity date of December 27, 2007.

The debentures are unsecured, mature on December 27, 2007, and bear interest at 16% per annum. The interest payments are payable monthly in arrears. The debentures may be redeemed, in whole or part, by the Fund during the term of the debentures, at the option of the Fund.

13. Fund unit equity

Authorized:

The Fund's Deed of Trust provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distribution from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All trust units are of the same class with equal rights and privileges.

Issued:

	<u>Number</u>	<u>2003</u>	<u>Number</u>	<u>2002</u>
Deficit, beginning of year			-	\$ (77,239)
Share capital, beginning of year			12,288,750	2,378,167
Fund unit equity, beginning of year	<u>14,820,750</u>	<u>\$ 3,038,812</u>	-	-
Equity, beginning of year	<u>14,820,750</u>	<u>3,038,812</u>	<u>12,288,750</u>	<u>2,300,928</u>
Shares issued upon exercise of share options	-	-	882,000	217,975
Shares issued upon exercise of share warrants	-	-	1,650,000	292,500
Share purchase repayment (financing)	-	41,241	-	(128,550)
Fund restructuring costs	-	-	-	(268,188)
Fund unit cash distribution	-	(444,623)	-	(118,566)
Change in units/shares in the year	<u>-</u>	<u>(403,382)</u>	<u>2,532,000</u>	<u>(4,829)</u>
Net earnings for the year	<u>-</u>	<u>909,629</u>	<u>-</u>	<u>742,713</u>
Fund unit equity	<u>14,820,750</u>	<u>\$ 3,545,059</u>	<u>14,820,750</u>	<u>\$ 3,038,812</u>

Warrants

On January 14, 1999, in connection with the execution of a non-bank credit facility, Carfinco issued 1,500,000 warrants to signatories (two of the directors of Carfinco) of limited recourse personal guarantees of \$1,000,000. The warrants were 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.

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



13. Fund unit equity (continued)

On August 31, 2000, in connection with the bank credit facility, as disclosed in Note 9, Carfinco issued 150,000 warrants to a signatory (a director of Carfinco) of a limited recourse personal guarantee of \$500,000. The warrants were 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.

The Fund does not currently have any outstanding warrants.

Stock options

Effective January 1, 2002, the Fund prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to the accounting for stock-based compensation and other stock-based payments.

Carfinco provided compensation to certain employees and directors in the form of stock options. Carfinco followed the intrinsic value based method of accounting for such awards; consequently, no compensation expense was recognized for stock options as the exercise price was set at the market price on the issue date of the awards. When the options were exercised, the proceeds received were recorded as share capital. If Carfinco had adopted the fair value based method of accounting for its stock option plan, the effect on compensation expense would have been immaterial with no effect on earnings per fund unit/share.

The details on the stock options outstanding during the year are as follows:

	December 31, 2003		December 31, 2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	-	\$ -	997,000	\$ 0.25
Granted	-	-	145,000	0.42
Cancelled	-	-	(10,000)	0.42
Expired	-	-	(250,000)	0.35
Exercised	-	-	(882,000)	0.25
Outstanding, end of year	-	\$ -	-	\$ -
Options exercisable, end of year	-	\$ -	-	\$ -

The Fund does not currently have a unit based compensation plan.

Distribution of income to unitholders

Pursuant to the Deed of Trust of the Fund, the trustees must distribute all or virtually all of the income of the Fund for the fiscal year, determined in accordance with the Income Tax Act, to the unitholders of the Fund. If the Fund does not pay cash distributions for the total distributable amount of income, the remaining income of the Fund is distributed through additional common trust units having a value equal to the cash shortfall. As at December 31, 2003, the Fund had \$1,093,031 (December 31, 2002 - \$296,415) in distributable income of which \$444,623 (December 31, 2002 - \$118,566) was distributed in cash and the remaining \$648,408 (December 31, 2002 - \$177,849) was distributed through additional common trust units to the unitholders.

Immediately after any distribution of common trust units, the number of outstanding common trust units will be consolidated such that each common trust unitholder will hold the same number of common trust units as before the distribution. On December 31, 2003, a total of 1,852,594 (December 31, 2002 - 355,698) common trust units were issued to distribute the remaining taxable income of \$648,408 (December 31, 2002 - \$177,849), and were immediately consolidated.

Share purchase financing

The Fund entered into share loan agreements on August 20, 2002 with two individuals who are employees and/or trustees of the Fund. The loans have an aggregate principal amount of \$87,309 (December 31, 2002 - \$128,550), bear interest at the prescribed interest rate, as set by the Canada Customs and Revenue Agency, and are repayable in full on August 20, 2007. The loans are secured by 502,500 (December 31, 2002 - 762,500) trust units acquired pursuant to the exercise of options and warrants related to the financing. As at December 31, 2003, the market value of the security was \$226,125 (December 31, 2002 - \$366,000).

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



14. Distributable cash	December 31 2003	December 31 2002
Net earnings	\$ 909,629	\$ 742,713
Adjustments:		
Amortization	65,427	63,788
Amortization of gain on termination of interest rate swap agreements	(8,955)	-
Capital cost allowance	(42,339)	(41,601)
Financing fees	-	(40,724)
Gain on termination of interest rate swap agreements	193,000	-
Non-deductible expenses	15,714	34,051
Other	11,294	58,487
Share issue costs	(50,739)	(155,381)
Taxable income attributable to pre-reorganization structure	-	(619,631)
Income taxes (current and future)	-	254,713
	1,093,031	296,415
Amounts reinvested by the Fund	(648,408)	(177,849)
Total distributable cash earned and distributable during the year	\$ 444,623	\$ 118,566
Actual cash distribution per trust unit	\$ 0.030	\$ 0.008
Cumulative cash distributions, beginning of year	\$ 118,566	\$ -
Actual cash distributions for the year	444,623	118,566
Cumulative cash distributions, end of year	\$ 563,189	\$ 118,566

15. Related party transactions

The Fund had an agreement with Patuca Corporation for services provided on an on-going basis. Carfinco LP entered into a Consulting Services Agreement with Patuca Corporation on August 28, 2002 and pursuant to this agreement on November 27, 2002, Carfinco LP commenced incurring a fixed monthly fee of \$13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. This agreement was terminated on September 30, 2003. The fee represented fair value for services provided.

During fiscal 2003, payments of \$161,594 (fiscal 2002 - \$166,820) were made to Patuca Corporation and at December 31, 2003, there was \$nil (December 31, 2002 - \$18,020) payable to Patuca Corporation. Patuca is controlled by individuals who are trustees and/or unitholders of the Fund.

The Fund has an agreement with Patuca Securities Limited for services provided on an on-going basis. Carfinco LP entered into a Consulting Services Agreement with Patuca Securities Limited on October 1, 2003 and pursuant to this agreement Carfinco LP commenced incurring a fixed monthly fee of \$13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. The fee represents fair value for services provided.

During fiscal 2003, payments of \$36,366 (fiscal 2002 - \$nil) were made to Patuca Securities Limited and at December 31, 2003, there was \$18,326 (December 31, 2002 - \$nil) payable to Patuca Securities Limited. Patuca Securities Limited is controlled by individuals who are trustees and/or unitholders of the Fund.

The Fund issued debentures in the aggregate principal amount of \$200,000 to family members of David Rosenkrantz, a trustee of the Fund. During fiscal 2003, interest payments of \$31,912 (fiscal 2002 - \$32,000) were made to these debenture holders.

During fiscal 2003, the Fund issued a debenture in the aggregate principal amount of \$25,000 to Tracy Graf, a trustee and officer of the Fund. During fiscal 2003, interest payments of \$3,660 (fiscal 2002 - \$nil) were made to this debenture holder.

The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

16. Income taxes

Under the terms of the Deed of Trust, all or virtually all of the taxable income will be allocated to unitholders. No future taxes were recorded by the Fund in 2003, as there is no Canadian tax obligation. All income tax for 2002 was incurred by Carfinco and by Canadian Automotive Finance Corporation prior to the reorganization.

Income tax expense differs from the amount computed by applying the statutory provincial and federal income tax rates to the respective years' earnings before income taxes. These differences result from the following items:

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



16. Income taxes (continued)

	<u>December 31</u> <u>2003</u>	December 31 <u>2002</u>
Earnings before income taxes	\$ 909,629	\$ 997,426
Income subject to tax for unitholders	<u>(909,629)</u>	<u>(296,415)</u>
Total earnings subject to Canadian tax	<u>\$ -</u>	<u>\$ 701,011</u>
Statutory Canadian corporate tax rates	37.00%	39.00%
Income taxes at statutory combined federal and provincial rates	\$ -	\$ 273,394
Increase (decrease) from statutory rate resulting from:		
Non deductible expenses and other items	<u>-</u>	<u>(18,681)</u>
Provision for income taxes	<u>\$ -</u>	<u>\$ 254,713</u>

The Fund has tax pools that exceed the carrying values of assets and liabilities that are comprised of the following:

	<u>December 31</u> <u>2003</u>	December 31 <u>2002</u>
Allowance for credit losses	\$ 493,175	\$ 312,888
Capital assets	<u>(22,070)</u>	<u>(45,157)</u>
Share/unit issue costs	185,434	236,173
Tax loss carry forwards	10,188	13,822
Unearned administration fees	<u>(260,000)</u>	<u>(300,000)</u>
Total tax values in excess of carrying values	<u>\$ 406,727</u>	<u>\$ 217,726</u>

Because all or virtually all of the taxable income of the Fund is allocated to unitholders, the tax benefit arising from these temporary differences has not been recognized in the consolidated financial statements.

17. Commitments

The Fund is committed to a long term operating lease for building space. The minimum annual lease payments required are as follows:

2004	\$ 84,000
2005	7,000

18. Earnings per fund unit/share

The computation of basic earnings per fund unit/share has been calculated using the weighted average number of common trust units/shares outstanding during the year. Earnings per fund unit/share on a diluted basis has been calculated using the treasury method.

The following table describes the computation of basic and diluted earnings per fund unit/share:

	<u>December 31</u> <u>2003</u>	December 31 <u>2002</u>
Numerator:		
Net earnings	<u>\$ 909,629</u>	<u>\$ 742,713</u>
Denominator:		
Basic weighted average fund units/shares	14,318,250	13,344,948
Effect of dilutive share purchase financing	<u>314,242</u>	<u>491,869</u>
Dilutive weighted average fund units/shares	<u>14,632,492</u>	<u>13,836,817</u>
Earnings per fund unit/share – basic	<u>\$ 0.06</u>	<u>\$ 0.06</u>
Earnings per fund unit/share – diluted	<u>\$ 0.06</u>	<u>\$ 0.05</u>

Carfinco Income Fund

Notes to the Consolidated Financial Statements

December 31, 2003



19. Fair value of financial instruments

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Fund's financial instruments. Consequently, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the ultimate net realizable value.

The following table presents the estimated fair values of the Fund's financial assets and financial liabilities:

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Financial assets				
Finance receivables - net	\$ 25,353,265	\$ (a)	\$ 23,806,756	\$ (b)
Financial liabilities				
Bank indebtedness	\$ 17,093,374	\$ 17,093,374	\$ 17,290,852	\$ 17,290,852
Payables and accruals	294,239	294,239	449,114	449,114
Dealer participation	233,025	172,550	-	-
Long term debt	3,925,000	3,925,000	3,710,000	3,710,000

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- The fair value of finance receivables – net is calculated by discounting the estimated future cash flows of the portfolio at rates commensurate with the underlying assets. The fair value is net of allowance for credit losses and dealer reserve at the balance sheet date. Management's estimate of fair value is presented as a range of the values as, currently, there is no organized market for valuing the finance receivable portfolio.

	<u>(a) December 31, 2003</u>		<u>(b) December 31, 2002</u>	
	<u>Discount Rate</u>	<u>Fair Value</u>	<u>Discount Rate</u>	<u>Fair Value</u>
Upper value	12.5%	\$ 30,819,700	12.5%	\$ 29,371,700
Lower value	17.5%	\$ 28,920,700	17.5%	\$ 27,572,400

- Bank indebtedness and payables and accruals are assumed to approximate their carrying values, due to their short-term nature.
- Fair value of the dealer participation is determined by discounting the estimated future cash flows.
- Book value of the long term debt approximates its fair value.

The nature of these instruments and the Fund's operations expose the Fund to interest rate risk and industry credit risk. The Fund manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Interest rate risk

Finance receivables bear interest at a fixed rate. The fixed rate finance receivable is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

Bank indebtedness bears interest at a floating rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

Long term debt bears interest at a fixed rate. The fixed rate long term debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

Credit risk

The Fund's finance receivables are a result of transactions within the consumer finance industry, and as such, contain an element of credit risk in the event that the counter parties are unable to meet the terms of the agreements. The Fund secures individual finance receivables by registering a security interest/lien against tangible assets. The Fund performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Fund maintains an allowance for credit losses, and any such losses to date have been within management's expectations.

20. Comparative figures

Certain of the previous year's figures have been reclassified to conform to the current year's format of presentation.

21. Subsequent events

On February 9, 2004, the Fund finalized the renewal of all of the debentures scheduled to mature on February 18, 2004. Their new maturity date is February 18, 2006 and the aggregate principal amount is \$2,475,000.

Trustees

Tracy A. Graf
President
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
New Strategic Business Development
Yogen Früz Canada Inc.
Toronto, Ontario

Maurice Kagan
Chief Financial Officer and Secretary
Residential Equities Real Estate Trust
Toronto, Ontario

Brent Channell
Principal
Thales Corp.
Toronto, Ontario

Officers (Carfinco Inc.)

Tracy A. Graf
President
Carfinco Inc. (General Partner for Carfinco LP)

Troy S.F. Graf
Vice President
Carfinco Inc.

David Prussky
Treasurer
Carfinco Inc.

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Argyll Branch
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Edmonton, Alberta T6E 3J6

Auditors

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Annual Meeting

April 23, 2004 at 10:30 a.m. (MST)
Holiday Inn the Palace
4235 Gateway Boulevard
Edmonton, Alberta

CARFINCO INCOME FUND

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