

CARFINCO INCOME FUND

THIRD QUARTER REPORT 2005

Report to Unitholders

The third quarter of 2005, Carfinco earned record profits and increased its monthly distributions to record levels.

During the third quarter Carfinco earned profits of \$0.07 per unit in comparison to \$0.06 in the second quarter and \$0.05 in the first quarter. This growth in earnings per unit was achieved, notwithstanding, the impact of a unit equity issuance in the second quarter.

Distributions per unit have also grown significantly during this time period. During the third quarter 2005, the Fund distributed \$0.066 per unit; this compares with \$0.063 in the second quarter and \$0.040 for the first quarter of 2005. During the month of October, the Fund increased its monthly distribution to \$0.024 (which equates to a quarterly run rate of \$0.072 per unit held for the fourth quarter).

The Fund's cash distribution to Unitholders for the first nine months of 2005 is \$3,100,448, compared to reported net earnings of \$3,184,210 for the same period. Carfinco's business model, which has relatively low capital expenditures, is well suited to a high payout ratio.

The finance receivables grew by 8.8% for the third quarter and by 36.0% during the first nine months of 2005 to a total of \$57,995,182. The finance receivables have increased \$19,688,001, or 51.4% from the finance receivables of \$38,307,181 stated for the third quarter of 2004.

Loan originations for the third quarter were \$12,164,881 an increase of 23.7% from the loans originated during the third quarter of 2004. Loan originations for the first nine months of 2005 equate to \$35,387,748. Carfinco believes that its current growth rate is prudent and will focus on increasing originations in tandem with growth and maturing of its overall infrastructure.

Revenues of \$4,335,761 for the third quarter of 2005 represents an increase of 26.8% and 9.1% from the revenue for the first and second quarter respectively. In comparison, revenues of \$4,335,761 increased \$1,498,202 or 52.8%, from the \$2,837,559 stated for the third quarter of fiscal 2004. During the first nine months of fiscal 2005, the revenues increased 56.3%, from the revenues recorded for the first nine months of fiscal 2004.

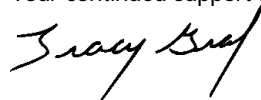
Net earnings of \$1,262,815 for the third quarter of fiscal 2005 increased 16.5% from the net earnings of \$1,083,638 for the second quarter and 50.7% from the net earnings of \$837,757 for the first quarter. In comparison, net earnings of \$1,262,815 for the third quarter of 2005 increased 104.2% from the \$618,361 stated for the third quarter of fiscal 2004. During the first nine months of fiscal 2005, the net earnings increased 115.2%, from the net earnings recorded for the first nine months of fiscal 2004. Earnings per unit of \$0.18 for the first nine months of 2005 represents an increase of 63.6%, over the earnings per unit of \$0.10 recorded for the first nine months of 2004.

Expenses of \$3,072,946 for the third quarter of fiscal 2005 increased 19.1%, from the expenses of \$2,581,058 for the first quarter and 6.3% from the expenses of \$2,889,889 for the second quarter. The 6.3% increase in expenses from the second to third quarter of 2005 compares favorably to the 8.4% increase in expenses from the second to third quarter of 2004. As we continue to grow the finance receivables, personnel costs and portfolio management costs continue to increase as we insure our operational structure grows sufficiently to efficiently and effectively accommodate and monitor the increased number of customers and increased finance receivables portfolio.

Subsequent to the third quarter of 2005, Carfinco announced that it successfully completed an amendment to its Senior Credit Facility with Bank of America Business Capital. The amendment, requested by Carfinco, favorably reduces reserve requirements and allowances for credit losses, adjusting the credit facility requirements to more accurately reflect portfolio growth, portfolio mix, and actual loan loss experience.

Carfinco is committed to growth with a management team dedicated to growing the business in a responsible and predictable manner and increasing unitholder value through consistent operating results.

Your continued support is greatly appreciated,



Tracy A. Graf
President and Chief Executive Officer



Dated

November 2, 2005

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. 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

Carfinco Income Fund reported net earnings of \$3,184,210 for the nine months ended September 30, 2005, compared to \$1,479,554 for the nine months ended September 30, 2004. The net earnings over these comparative periods has increased 115.2%. Net earnings for the three months ended September 30, 2005 were \$1,262,815; an increase of 16.5% over the \$1,083,638 for the three months ended June 30, 2005 and an increase of 50.7% over the \$837,757 for the three months ended March 31, 2005.

The Fund's revenues of \$11,728,103 reported for the nine months ended September 30, 2005 represent an increase of \$4,226,484, or 56.3%, over the \$7,501,619 for the nine months ended September 30, 2004. The revenues for the third quarter 2005 of \$4,335,761 increased \$362,234 over the second quarter 2005 revenues of \$3,973,527 and \$916,946 over the first quarter 2005 revenues of \$3,418,815; an increase of 9.1% and 26.8% respectively. 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.

The expenses of \$8,543,893 for the nine months ended September 30, 2005 represent an increase of \$2,521,828, or 41.9%, over the \$6,022,065 for the nine months ended September 30, 2004. Interest expense increased \$220,338 (17.8%), provision for credit losses increased \$1,481,144 (62.6%) and the remaining operational expenses increased \$820,346 (34.0%). The increase in provision for credit losses of 62.6% was primarily driven by the 51.4% increase in average outstanding finance receivables during the period.

The expenses for the third quarter 2005 increased by \$183,057, or 6.3%, to \$3,072,946 from the second quarter 2005 expenses of \$2,889,889. Interest expense increased \$16,934 (3.8%), provision for credit losses increased \$42,578 (3.1%) and the remaining operational expenses increased \$123,545 (11.5%).

Prior to fiscal 2004, administration fees charged to the customer by the Fund on the origination of a loan were recognized at the time of origination. During the fourth quarter of fiscal 2004, the board of trustees and management reviewed this policy and effective for fiscal 2004 implemented an accounting policy whereby these administration fees, net of certain direct origination costs, are deferred and recognized over the term of the loan. Accordingly the Fund has restated the 2004 third quarter financial statements as follows: administration fee revenue decreased \$232,502 and general and administrative expenses decreased by \$96,078, resulting in a decrease in net earnings of \$136,424. Net earnings for the three months ended September 30, 2004, previously reported as \$754,785 have been restated to \$618,361. As a result, earnings per fund unit for the three months ended September 30, 2004, both basic and diluted, previously reported as \$0.05 per unit have been restated to \$0.04 per unit.

Asset Review

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. The Fund's strategy continues to be that of the alternative lender to major financial institutions in the higher risk used vehicle finance market.

Asset Review (Continued)

During the first nine months of 2005, the Fund's finance receivables increased by \$15,340,950, or 36.0%, to \$57,995,182 from \$42,654,232 at December 31, 2004. During the comparative period in 2004, the Fund's finance receivables increased by \$10,123,916, or 35.9%. Funds advanced on finance receivables of \$30,167,850 during the nine months ended September 30, 2005 increased \$8,580,053, or 39.7%, over the \$21,587,797 during the nine months ended September 30, 2004.

The Fund's finance receivables increased during the third quarter of 2005 by \$4,687,460, or 8.8%, to \$57,995,182 from \$53,307,722 at June 30, 2005. Funds advanced on finance receivables amounted to \$10,236,826 during the three months ended September 30, 2005; a decrease of \$335,944, or 3.2%, from the \$10,572,770 during the three months ended June 30, 2005.

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. The increase in funding levels can be attributed to the emphasis on geographic expansion of the Carfinco finance program.

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 existing in the finance receivable 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 probable losses existing in the finance receivable portfolio.

The Fund's allowance for credit losses, including dealer reserve, increased \$569,729, or 15.4%, to \$4,270,561 as at September 30, 2005 from \$3,700,832 as at December 31, 2004 and \$802,636, or 23.1% from \$3,467,925 as at September 30, 2004. 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.

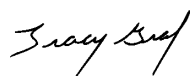
The Fund currently maintains a credit facility of \$50,000,000, subject to a defined borrowing base. The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at September 30, 2005, a total of \$37,181,577 was outstanding under the credit facility.

On April 13, 2005, the Fund closed a private placement of units. The combined gross proceeds of the initial closing on April 8, 2005 and the second closing on April 13, 2005 were \$7,168,660 and consisted of a total issuance of 2,757,177 units of the Fund at \$2.60 per unit. The proceeds of the offering were used to repay subordinated indebtedness and borrowings under the bank credit facility.

Certification of Interim Consolidated Financial Statements CARFINCO INCOME FUND

The consolidated financial statements of Carfinco Income Fund were prepared and reviewed by management, which is responsible for the integrity and fairness of the financial information presented. Based on our knowledge, the interim consolidated financial statements of Carfinco Income Fund do not contain any untrue statement of material fact or omit to state a material fact required to be stated or necessary to make a statement not misleading in light of circumstances under which it was made, with respect to the period covered by the interim consolidated financial statements. Based on this knowledge, the interim consolidated financial statements, together with the other financial information included in the interim filings, present fairly in all material respects the financial condition, results of operations and cash flows of Carfinco Income Fund as of September 30, 2005.

The Audit Committee has reviewed and approved the contents of this quarterly report. The Board of Trustees has delegated the responsibility to approve interim financial statements and related managements discussion and analysis to the Audit Committee. The disclosure controls and procedures of Carfinco Inc. support the ability of the President and the Chief Financial Officer of Carfinco Income Fund to assure that the interim financial statements are fairly presented.



Tracy A. Graf
President and Chief Executive Officer
November 2, 2005



Troy S. F. Graf
Chief Financial Officer

Consolidated Balance Sheets
CARFINCO INCOME FUND

| | September 30, 2005 (unaudited) | December 31, 2004 (audited) | September 30, 2004 (unaudited) |
|--|-----------------------------------|--------------------------------|-----------------------------------|
| Assets | | | |
| Finance receivables (Note 2) | \$ 57,995,182 | \$ 42,654,232 | \$ 38,307,181 |
| Allowance for credit losses (Note 3) | (3,370,450) | (2,729,000) | (2,559,000) |
| Dealer reserve (Note 4) | (900,111) | (971,832) | (908,925) |
| Finance receivables – net | <u>53,724,621</u> | <u>38,953,400</u> | <u>34,839,256</u> |
| Cash and cash equivalents | 432,349 | 453,679 | 193,007 |
| Other assets | 79,314 | 52,692 | 45,213 |
| Capital assets | 188,022 | 163,896 | 167,869 |
| Deferred costs | <u>62,504</u> | <u>37,304</u> | <u>42,900</u> |
| | <u>762,189</u> | <u>707,571</u> | <u>448,989</u> |
| | <u>\$ 54,486,810</u> | <u>\$ 39,660,971</u> | <u>\$ 35,288,245</u> |
| Liabilities | | | |
| Bank credit facility (Note 5) | \$ 37,181,577 | \$ 27,661,324 | \$ 24,103,758 |
| Accounts payable and accrued liabilities | 627,478 | 511,260 | 638,533 |
| Deferred administration fees | 2,218,400 | 1,199,504 | 946,050 |
| Deferred dealer obligation | 2,730,296 | 1,477,985 | 1,195,199 |
| Deferred gain | 90,013 | 130,312 | 143,749 |
| Long term debt (Note 6) | <u>-</u> | <u>3,925,000</u> | <u>3,925,000</u> |
| | <u>42,847,764</u> | <u>34,905,385</u> | <u>30,952,286</u> |
| Unitholders' Equity | | | |
| Fund unit equity (Note 7) | <u>11,639,046</u> | <u>4,755,586</u> | <u>4,335,959</u> |
| | <u>\$ 54,486,810</u> | <u>\$ 39,660,971</u> | <u>\$ 35,288,245</u> |

Consolidated Statements of Earnings and Equity
CARFINCO INCOME FUND

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|--------------------------------------|-----------------------------|---------------------|----------------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenues | | | | |
| Interest income | \$ 3,783,003 | \$ 2,516,428 | \$ 10,273,139 | \$ 6,742,667 |
| Administration fees | <u>552,758</u> | <u>321,131</u> | <u>1,454,964</u> | <u>758,952</u> |
| | <u>4,335,761</u> | <u>2,837,559</u> | <u>11,728,103</u> | <u>7,501,619</u> |
| Expenses | | | | |
| Interest | 459,761 | 441,220 | 1,460,073 | 1,239,735 |
| Financing fees | 12,578 | 9,399 | 30,348 | 31,999 |
| Provision for credit losses | 1,412,655 | 894,106 | 3,848,021 | 2,366,877 |
| Amortization | 15,166 | 20,582 | 62,117 | 57,309 |
| General and administrative | <u>1,172,786</u> | <u>853,891</u> | <u>3,143,334</u> | <u>2,326,145</u> |
| | <u>3,072,946</u> | <u>2,219,198</u> | <u>8,543,893</u> | <u>6,022,065</u> |
| Net earnings | <u>\$ 1,262,815</u> | <u>\$ 618,361</u> | <u>\$ 3,184,210</u> | <u>\$ 1,479,554</u> |
| Equity, beginning of period | | | | |
| Equity, beginning of period | \$ 11,587,014 | \$ 4,014,013 | \$ 4,755,586 | \$ 3,545,059 |
| Net earnings | 1,262,815 | 618,361 | 3,184,210 | 1,479,554 |
| Change in fund unit equity in period | <u>(1,210,783)</u> | <u>(296,415)</u> | <u>3,699,250</u> | <u>(688,654)</u> |
| Equity, end of period | <u>\$ 11,639,046</u> | <u>\$ 4,335,959</u> | <u>\$ 11,639,046</u> | <u>\$ 4,335,959</u> |
| Earnings per fund unit | | | | |
| Basic | <u>\$ 0.07</u> | <u>\$ 0.04</u> | <u>\$ 0.18</u> | <u>\$ 0.10</u> |
| Diluted | <u>\$ 0.07</u> | <u>\$ 0.04</u> | <u>\$ 0.18</u> | <u>\$ 0.10</u> |

Consolidated Statements of Cash Flows
CARFINCO INCOME FUND

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|---|-----------------------------|---------------------|----------------------------|---------------------|
| | 2005 (unaudited) | 2004 (unaudited) | 2005 (unaudited) | 2004 (unaudited) |
| Increase (decrease) in cash and cash equivalents | | | | |
| Operating | | | | |
| Net earnings | \$ 1,262,815 | \$ 618,361 | \$ 3,184,210 | \$ 1,479,554 |
| Adjustments to reconcile net earnings to net cash from operations: | | | | |
| Provision for credit losses | 1,412,655 | 894,106 | 3,848,021 | 2,366,877 |
| Amortization | 15,166 | 20,582 | 62,117 | 57,309 |
| Accrued interest | (47,182) | (65,498) | (116,919) | (94,320) |
| Administration fees receivable | (560,273) | (304,884) | (1,945,388) | (848,092) |
| Deferred administration fees | 288,766 | 239,979 | 1,018,896 | 659,891 |
| Deferred costs | 12,668 | (35,366) | (25,200) | (12,766) |
| Deferred gain | (13,433) | (13,433) | (40,299) | (40,299) |
| Payables and accruals | 54,264 | 68,510 | 116,218 | 344,294 |
| Other assets | 24,047 | 36,772 | (26,622) | (13,687) |
| | <u>2,449,493</u> | <u>1,459,129</u> | <u>6,075,034</u> | <u>3,898,761</u> |
| Investing | | | | |
| Funds advanced on finance receivables | (10,236,826) | (8,378,810) | (30,167,850) | (21,587,797) |
| Principal collections on finance receivables | 5,316,427 | 4,073,167 | 14,863,226 | 11,639,515 |
| Purchase of capital assets | <u>(37,776)</u> | <u>(16,461)</u> | <u>(86,243)</u> | <u>(79,202)</u> |
| | <u>(4,958,175)</u> | <u>(4,322,104)</u> | <u>(15,390,867)</u> | <u>(10,027,484)</u> |
| Financing | | | | |
| Advances on bank credit facility | 3,761,816 | 3,101,374 | 9,520,253 | 6,707,532 |
| Issuance of long term debt | - | - | 250,000 | - |
| Repayment of long term debt | - | - | (4,175,000) | - |
| Repayment of share purchase financing | - | - | 36,282 | 52,384 |
| Fund units issued on private placement | - | - | 7,168,660 | - |
| Fund unit issue costs | - | - | (329,882) | - |
| Fund unit stock exchange costs | 212 | - | (75,297) | - |
| Fund trust unit cash distribution | <u>(1,210,995)</u> | <u>(296,415)</u> | <u>(3,100,513)</u> | <u>(741,038)</u> |
| | <u>2,551,033</u> | <u>2,804,959</u> | <u>9,294,503</u> | <u>6,018,878</u> |
| Net (decrease) increase in cash and cash equivalents | 42,351 | (58,016) | (21,330) | (109,845) |
| Cash and cash equivalents | | | | |
| Beginning of period | <u>389,998</u> | <u>251,023</u> | <u>453,679</u> | <u>302,852</u> |
| End of period | <u>\$ 432,349</u> | <u>\$ 193,007</u> | <u>\$ 432,349</u> | <u>\$ 193,007</u> |
| Supplemental cash flow information: | | | | |
| Interest paid | <u>\$ 459,761</u> | <u>\$ 441,219</u> | <u>\$ 1,475,953</u> | <u>\$ 1,241,494</u> |

1. Summary of significant accounting policies

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 Toronto Stock Exchange, under the symbol "CFN.UN".

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 Fund's most recent annual financial statements for the period ended December 31, 2004. 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 Fund's December 31, 2004 Annual Report.

2. 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:

| | September 30 2005 | Average Stated Interest Rate | December 31 2004 | Average Stated Interest Rate | September 30 2004 | Average Stated Interest Rate |
|----------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|
| 2004 | | | | | \$ 4,803,290 | 29.1% |
| 2005 | \$ 6,859,908 | 28.7% | \$ 20,293,373 | 28.8% | 18,104,604 | 29.1% |
| 2006 | 26,517,626 | 28.7% | 18,077,513 | 28.9% | 15,608,927 | 29.1% |
| 2007 | 24,602,322 | 28.7% | 15,350,161 | 29.0% | 12,595,864 | 29.1% |
| 2008 | 20,802,313 | 28.8% | 10,842,672 | 29.1% | 8,013,449 | 29.2% |
| 2009 | 11,482,788 | 29.0% | 3,555,997 | 29.5% | 1,907,653 | 29.5% |
| 2010 | <u>2,251,956</u> | 29.5% | <u>-</u> | | <u>-</u> | |
| Gross finance receivables | 92,516,913 | | 68,119,716 | | 61,033,787 | |
| Unearned interest income | <u>(35,252,997)</u> | | <u>(26,079,831)</u> | | <u>(23,239,155)</u> | |
| Principal of finance receivables | 57,263,916 | | 42,039,885 | | 37,794,632 | |
| Accrued interest | <u>731,266</u> | | <u>614,347</u> | | <u>512,549</u> | |
| Finance receivables | <u>\$ 57,995,182</u> | | <u>\$ 42,654,232</u> | | <u>\$ 38,307,181</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 September 30, 2005, December 31, 2004 and September 30, 2004, the amount of principal of finance receivables classified as nonperforming amounted to \$278,573, \$127,850 and \$69,308, respectively. These finance receivables have been fully provided for in the allowance for credit losses.

3. Allowance for credit losses

| | Three months ended | | Nine months ended | | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Dec. 31, 2004 | Sept. 30, 2004 |
| Allowance, beginning of period | \$ 3,160,500 | \$ 2,508,000 | \$ 2,729,000 | \$ 2,485,000 | \$ 2,610,000 |
| Provision for credit losses | 1,412,655 | 894,106 | 3,848,021 | 2,803,651 | 2,366,877 |
| Write-offs | (1,528,021) | (1,090,055) | (4,188,020) | (3,216,069) | (3,034,746) |
| Recoveries | <u>325,316</u> | <u>246,949</u> | <u>981,449</u> | <u>656,418</u> | <u>616,869</u> |
| Allowance, end of period | <u>\$ 3,370,450</u> | <u>\$ 2,559,000</u> | <u>\$ 3,370,450</u> | <u>\$ 2,729,000</u> | <u>\$ 2,559,000</u> |

4. Dealer reserve

| | Three months ended | | Nine months ended | | |
|------------------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2005 | Sept. 30, 2004 | Sept. 30, 2005 | Dec. 31, 2004 | Sept. 30, 2004 |
| Reserve, beginning of period | \$ 1,049,750 | \$ 640,775 | \$ 971,832 | \$ 419,633 | \$ 220,000 |
| Reserve on new volume | 526,999 | 367,403 | 1,371,943 | 942,766 | 871,382 |
| Write-offs | (715,435) | (109,362) | (1,565,997) | (415,230) | (197,582) |
| Recoveries | <u>38,797</u> | <u>10,109</u> | <u>122,333</u> | <u>24,663</u> | <u>15,125</u> |
| Reserve, end of period | <u>\$ 900,111</u> | <u>\$ 908,925</u> | <u>\$ 900,111</u> | <u>\$ 971,832</u> | <u>\$ 908,925</u> |

5. Bank credit facility

| | Sept. 30, 2005 | Dec. 31, 2004 | Sept. 30, 2004 |
|----------------------|----------------------|----------------------|----------------------|
| Bank credit facility | <u>\$ 37,181,577</u> | <u>\$ 27,661,324</u> | <u>\$ 24,103,758</u> |

The bank credit facility is a demand loan which is the lesser at any time of: a) \$50,000,000 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 1.0%. The stated termination date of the credit facility is June 30, 2007. The collateral security lodged by the Fund to support the credit facility is a general security agreement covering all property held by the Fund. The terms of the credit facility provide for certain covenants, all of which the Fund was in compliance with at period-end.

6. Long term debt

| | Sept. 30, 2005 | Dec. 31, 2004 | Sept. 30, 2004 |
|---|----------------|---------------------|---------------------|
| 16% debentures, maturing on February 18, 2006 | \$ - | \$ 2,475,000 | \$ 2,475,000 |
| 16% debentures, maturing on December 27, 2007 | - | <u>1,450,000</u> | <u>1,450,000</u> |
| | <u>\$ -</u> | <u>\$ 3,925,000</u> | <u>\$ 3,925,000</u> |

On April 8, 2005, the Fund redeemed all of the outstanding subordinated debentures, in the aggregate amount of \$4,150,000.

7. 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:

| | Nine months ended | | | | | |
|--|--------------------|---------------|-------------------|--------------|--------------------|--------------|
| | September 30, 2005 | | December 31, 2004 | | September 30, 2004 | |
| | number | amount | number | amount | number | amount |
| Fund unit equity, beginning of period | 15,403,601 | \$ 4,755,586 | 14,468,250 | \$ 3,783,299 | 14,318,250 | \$ 3,545,059 |
| Share purchase repayment | 200,000 | 36,282 | 152,500 | 24,568 | 302,500 | 52,384 |
| Fund units issued on private placement | 2,757,177 | 7,168,660 | - | - | - | - |
| Fund unit issue costs | - | (329,882) | - | - | - | - |
| Fund unit stock exchange costs | - | (75,297) | - | - | - | - |
| Fund distribution (unit issuance) | - | - | 782,851 | - | - | - |
| Fund distribution (cash distribution) | - | (3,100,513) | - | (918,367) | - | (741,038) |
| Change in units in the period | 2,957,177 | 3,699,250 | 935,351 | (893,799) | 302,500 | (688,654) |
| Net earnings for the period | - | 3,184,210 | - | 1,866,086 | - | 1,479,554 |
| Fund unit equity, end of period | 18,360,778 | \$ 11,639,046 | 15,403,601 | \$ 4,755,586 | 14,620,750 | \$ 4,335,959 |

The Fund does not currently have any outstanding warrants or have a unit based compensation plan.

8. Distributable cash

| | Three months ended | | | Nine months ended | | |
|--|--------------------|----------------|--|-------------------|---------------|----------------|
| | Sept. 30, 2005 | Sept. 30, 2004 | | Sept. 30, 2005 | Dec. 31, 2004 | Sept. 30, 2004 |
| Net earnings | \$ 1,262,815 | \$ 618,361 | | \$ 3,184,210 | \$ 1,866,086 | \$ 1,479,554 |
| Adjustments: | | | | | | |
| Amortization | 15,166 | 20,582 | | 62,117 | 61,482 | 57,309 |
| Amortization of gain on termination of interest rate swap agreements | (13,433) | (13,433) | | (40,299) | (40,300) | (40,299) |
| Capital cost allowance | (9,885) | (13,400) | | (40,400) | (36,707) | (37,275) |
| Non-deductible expenses | 5,000 | 4,000 | | 15,000 | 11,265 | 12,000 |
| Other | 159,950 | 3,000 | | 617,050 | 594,855 | 9,000 |
| Share issue costs | (32,111) | (11,836) | | (72,283) | (35,509) | (35,508) |
| | 1,387,502 | 607,274 | | 3,725,395 | 2,421,172 | 1,444,781 |
| Amounts reinvested by the Fund | (176,507) | (310,859) | | (624,882) | (1,502,805) | (703,743) |
| Total distributable cash earned and distributable | \$ 1,210,995 | \$ 296,415 | | \$ 3,100,513 | \$ 918,367 | \$ 741,038 |
| Actual cash distribution per trust unit | \$ 0.066 | \$ 0.020 | | \$ 0.169 | \$ 0.062 | \$ 0.050 |
| Cumulative cash distributions, beginning of period | \$ 3,578,565 | \$ 1,007,812 | | \$ 1,689,047 | \$ 770,680 | \$ 563,189 |
| Actual cash distributions for the period | 1,210,995 | 296,415 | | 3,100,513 | 918,367 | 741,038 |
| Cumulative cash distributions, end of period | \$ 4,789,560 | \$ 1,304,227 | | \$ 4,789,560 | \$ 1,689,047 | \$ 1,304,227 |

9. Related party transactions

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. In management's opinion, the fee represents fair value for services provided. During the nine months ended September 30, 2005, payments of \$198,865 (nine months ended September 30, 2004 - \$170,514) were made to Patuca Securities Limited and at September 30, 2005, there was \$23,589 (December 31, 2004 - \$20,882, September 30, 2004 - \$20,130) payable to Patuca Securities Limited. Patuca Securities Limited is controlled by individuals who are trustees and/or unitholders of the Fund.

On February 18, 2005, the Fund issued debentures in the aggregate principal amount of \$225,000. The Fund issued a debenture in the principal amount of \$100,000 to David Rosenkrantz, a trustee of the Fund, and during the nine months ended September 30, 2005, interest payments of \$2,148 were made to this debenture holder. The Fund issued a debenture in the principal amount of \$100,000 to David Prussky, a trustee of the Fund, and during the nine months ended September 30, 2005, interest payments of \$2,148 were made to this debenture holder. The Fund issued a debenture in the principal amount of \$25,000 to a family member of Tracy Graf, a trustee and officer of the Fund, and during the nine months ended September 30, 2005, interest payments of \$537 were made to this debenture holder. On April 8, 2005, these debentures were redeemed by the Fund.

On March 18, 2005, the Fund issued a debenture in the principal amount of \$25,000 to a family member of Tracy Graf, a trustee and officer of the Fund, and during the nine months ended September 30, 2005, interest payments of \$230 were made to this debenture holder. On April 8, 2005, this debenture was redeemed by 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 the nine months ended September 30, 2005, interest payments of \$9,728 (nine months ended September 30, 2004 - \$24,047) were made to these debenture holders. On April 8, 2005, these debentures were redeemed by the Fund.

The Fund issued a debenture in the aggregate principal amount of \$25,000 to Tracy Graf, a trustee and officer of the Fund. During the nine months ended September 30, 2005, interest payments of \$986 (nine months ended September 30, 2004 - \$3,006) were made to this debenture holder. On March 18, 2005, this debenture was redeemed by the holder.

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

10. Fair value of financial instruments

Refer to the December 31, 2004 Annual Report for disclosure related to financial instruments.

Summary Quarterly Highlights

CARFINCO INCOME FUND

| (in 000's except per unit amounts) | Q3-2005 | Q2-2005 | Q1-2005 | Q4-2004 | Q3-2004 | Q2-2004 | Q1-2004 | Q4-2003 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| OPERATING RESULTS: | | | | | | | | |
| Net earnings | 1,263 | 1,084 | 838 | 806 | 618 | 442 | 419 | 355 |
| Total revenue | 4,336 | 3,974 | 3,419 | 3,232 | 2,838 | 2,479 | 2,185 | 2,019 |
| Earnings per unit – basic/fully diluted | 0.07 | 0.06 | 0.05 | 0.05 | 0.04 | 0.03 | 0.03 | 0.02 |
| GROWTH IN BUSINESS: | | | | | | | | |
| Finance receivables | 57,995 | 53,308 | 47,635 | 42,654 | 38,307 | 33,742 | 30,221 | 28,183 |
| Funds advanced on finance receivables | 10,237 | 10,573 | 9,358 | 8,556 | 8,379 | 7,378 | 5,831 | 5,470 |
| Allowance for credit losses (incl.dealer reserve) | 4,271 | 4,210 | 3,778 | 3,701 | 3,468 | 3,149 | 2,905 | 2,830 |
| Allowance as a % of finance receivables | 7.4% | 7.9% | 7.9% | 8.7% | 9.1% | 9.3% | 9.6% | 10.0% |
| Bank credit facility | 37,182 | 33,420 | 30,897 | 27,661 | 24,104 | 21,002 | 18,362 | 17,396 |
| Long term debt | - | - | 4,150 | 3,925 | 3,925 | 3,925 | 3,925 | 3,925 |
| Fund unit equity | 11,639 | 11,587 | 5,598 | 4,756 | 4,336 | 4,014 | 3,783 | 3,545 |
| Fund units issued | 18,361 | 18,361 | 15,429 | 15,404 | 14,621 | 14,621 | 14,468 | 14,318 |
| Basic weighted average fund units | 18,361 | 17,945 | 15,427 | 15,404 | 15,404 | 15,251 | 15,210 | 14,941 |
| Book value per unit | 0.63 | 0.65 | 0.36 | 0.31 | 0.28 | 0.26 | 0.25 | 0.24 |

Corporate Information

CARFINCO INCOME FUND

Trustees

Tracy A. Graf
President, Carfinco Inc.
Edmonton, Alberta

David Prussky
Director, Patca Securities Limited
Toronto, Ontario

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

David Rosenkrantz
Director, Patca Securities Limited
Toronto, Ontario

Simon Serruya
New Strategic Business Development, Yogen Früz Canada Inc.
Toronto, Ontario

Maurice Kagan
President, Danika Associates Limited
Toronto, Ontario

Brent Channell
Principal, Thales Alternative Investments Inc.
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.

Bankers

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

Auditors

Grant Thornton LLP
Scotia Place 2, Suite 1401
10060 Jasper Avenue
Edmonton, Alberta T5J 3R8

Solicitors

Bennett Jones LLP
4500 Bankers Hall East
855 – 2nd Street S.W.
Calgary, Alberta T2P 4K7

Transfer Agent

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

Stock Exchange Listing

The Toronto Stock Exchange (TSX)
Trading Symbol: CFN.UN

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Caution Regarding Forward-Looking Statements

This report may contain certain forward-looking statements, including statements regarding the business and anticipated financial performance of Carfinco Income Fund. These statements are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. Carfinco Income Fund does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.