

CARFINCO INCOME FUND

CANADA'S LEADING AUTOMOTIVE SPECIALTY FINANCE INCOME FUND

ANNUAL REPORT 2010

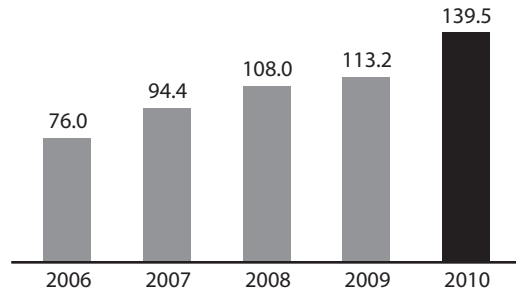


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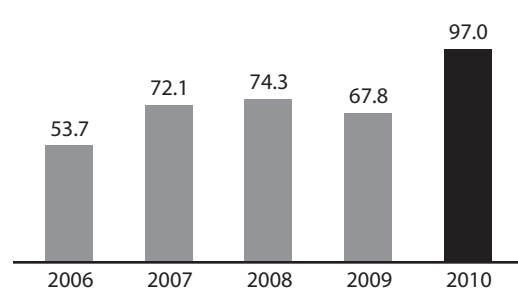
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Financial Highlights

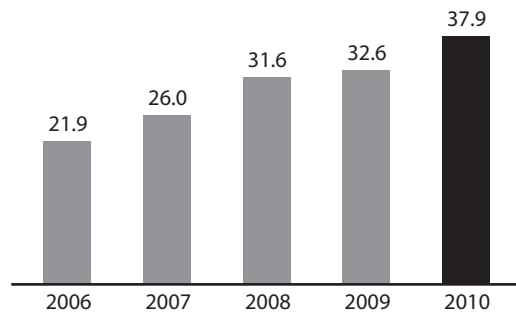
Finance Receivables (\$ millions)



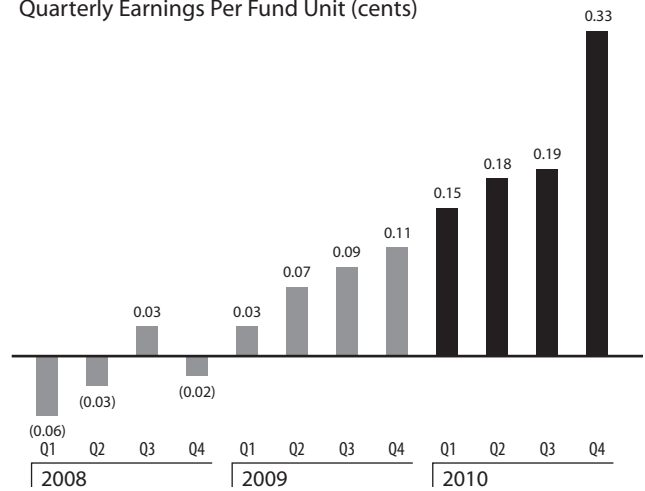
Loan Originations (\$ millions)



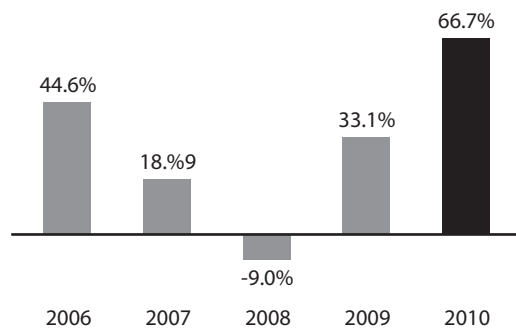
Revenues (\$ millions)



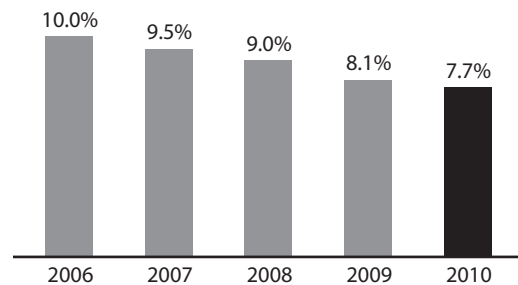
Quarterly Earnings Per Fund Unit (cents)



Pre-Tax Return on Unitholders' Equity (%)



Operating Expense Ratio on Portfolio Assets (%)



To Our Unitholders

2010 is a record setting year with Carfinco achieving over \$20 million in net earnings for the year. Return on average unitholder's equity for 2010 is 77.2%, beating Carfinco's previous record ROE of 55.3% set in 2005.

Net earnings of \$20.7 million for 2010 represent an increase of 181.5% from the net earnings of \$7.3 million for 2009. The 2010 net earnings include a future income tax recovery of \$2.8 million versus a future income tax recovery of \$0.1 million recorded for 2009. Pre-tax net earnings of \$17.8 million for 2010 represent an increase of 146.8% from the pre-tax earnings of \$7.2 million for 2009.

The fourth quarter of 2010 continues to meet our objectives, being the seventh consecutive quarter of record net earnings, with net earnings of \$8.1 million. The \$5.3 million pre-tax net earnings recorded for the fourth quarter is a 14.3% increase over the pre-tax net earnings of \$4.6 million recorded for the third quarter of 2010 and a 112.5% increase over the pre-tax net earnings of \$2.5 million for the fourth quarter of 2009. For 7 consecutive quarters, pre-tax net earnings have been \$1.8, \$2.2, \$2.5, \$3.6, \$4.3, \$4.6 and \$5.3 million, respectively.

HIGHLIGHTS

- Record net earnings for 2010 of \$20.7 million;
- Record earnings per fund unit for 2010 of 84 cents;
- Record return on unitholder's equity for the year of 77.2%;
- Record loan originations of \$97.0 million for 2010;
- Record finance receivables at the end of 2010 of \$139.5 million;
- 31+ day delinquent accounts for the fourth quarter of 2010 are 2.9%.

Earnings per unit for 2010 are 84 cents, up 180.0% from the 30 cents recorded for 2009.

Revenues of \$37.9 million for 2010 increased 16.1% from the revenues of \$32.6 million for 2009. Revenues of \$10.3 million for the fourth quarter of 2010 represent an increase of 5.1% from the \$9.8 million for the third quarter of 2010 and a 20.1% increase from the \$8.6 million for the fourth quarter of 2009.

Loan originations for 2010 are \$97.0 million, a 43.1% increase from \$67.8 million in 2009. Loan originations of \$24.5 million for the fourth quarter of 2010 is a decrease from the \$25.8 in loan originations for the third quarter of 2010 and an increase from the \$17.8 million in the fourth quarter of 2009. The decrease in loan originations from the third to the fourth quarter of 2010 can be attributed to lower loan originations during the holiday season in the month of December. This is typical in Carfinco's experience.

Finance receivables at the end of 2010 are \$139.5 million, an increase of 23.2% from \$113.2 million for 2009, exceeding our target of a 15% to 20% growth. During the fourth quarter of 2010, finance receivables increased \$6.2 million from the \$133.3 million at the end of the third quarter of 2010.

Accounts 31+ days delinquent at the end of the fourth quarter of 2010 were 2.9% versus 3.0% for the third quarter of 2010 and 4.6% for the fourth quarter of 2009.

As of January 1, 2011 Carfinco is now a taxable entity. Even though Carfinco has not converted to a corporation and remains an income fund, it is now taxed the same as a corporation.

Prior to January 1, 2011 Carfinco distributed all of its taxable income to its unitholders as per its Deed of Trust. Carfinco historically issued equity and/or subordinated debt to fund the growth of the finance receivables and keep the financial leverage ratio within covenant. As Carfinco is now treated the same as a corporation and distributions are on an after-tax basis, retained earnings are now an option for Carfinco to grow its finance receivables and maintain the financial leverage ratio within covenants rather than issuing equity or subordinated debt. It will be the responsibility of the Board of Trustees to determine the balance of after-tax income retained for growth versus after-tax income distributed to unitholders.

It is important to note that once Carfinco became a taxable entity in 2011, cash distributions to unitholders receive a more favorable personal tax treatment than in 2010. Distributions paid after January 1, 2011 are treated as eligible Canadian dividends for tax purposes, resulting in a lower effective tax rate in the hands of a taxable investor. For the first two months of 2011 Carfinco distributed a total of 4 cents per unit to its unitholders.

Management continues to target growth of the finance receivables in the neighborhood of 20% during 2011, while maintaining acceptable levels of delinquencies and credit losses.

Please review the MD&A for further financial comparisons and information.

Thank you to all who participated in making 2010 a record-breaking year for Carfinco.



Tracy Graf,
Chief Executive Officer

Corporate Governance

The Board of Trustees provides stewardship of the Fund on behalf of unitholders through regular meetings and ongoing contact with Carfinco's management. Through this structured approach, Trustees exercise their duty to support informed, prudent and resolute decision making. Above all, our actions are guided by corporate governance regulations for public companies to ensure high standards of accountability and transparency to unitholders.

DAVID A. ROSENKRANTZ

Chairman

David is a co-founder of Patuca Securities Limited and Patuca Corporation. He has served as President and Director of Patuca Securities Limited since 2001, and Chairman of Patuca Corporation since 1993. In addition, David is a Director of NexgenRx Inc. He has served as a Director of numerous public and private companies including: Medisystem Technologies Inc., Stellar Pharmaceuticals Inc., and Versent Corporation.

TRACY A. GRAF

Tracy was appointed President of the Carfinco Group in November 1998, after a long history as a principal and founder of several successful businesses. These included past roles as General Manager of Graf Management and Cattle Co. Ltd., a Board position with Canadian Simmental Association, including one year as President, and a director of Casablanca Capital Corp., which was traded on the TSX Venture Exchange.

J. DARYL MACLELLAN

Daryl is President of CIT Canada, a unit of CIT Group Inc. (NYSE: CIT), a leading global commercial and consumer finance company. Daryl is also President of CIT Group Securities (Canada) Inc. A graduate of the University of Waterloo, Daryl is a Chartered Accountant and serves on the Board of Directors of the Canadian Financing Lease Association, as well as a number of other private companies.

BRENT A. CHANNELL

Brent is a partner in Spartan Fund Management Inc., a specialist in alternative investment strategies. He has over 25 years of experience in alternative investments, structured finance, corporate finance and derivatives, primarily with the Royal Bank of Canada and Citibank Canada. Brent is a graduate of the University of British Columbia (BComm, Hons.) and Queens University (MBA).

MAURICE KAGAN

Maurice is currently President of Sparkle Solutions Income Fund. In addition to his role as a Board member at Carfinco, he is the Chairman of Carfinco's Audit Committee. Until June 2004, Maurice was CFO of Residential Equities Real Estate Investment Trust (ResREIT) and served as Vice President, Corporate at CapREIT until February 2006.

DAVID M. PRUSSKY

David is a co-founder of Patuca Securities Limited and Patuca Corporation. He serves as a Director of Patuca Securities Limited, a limited market dealer, and President of Patuca Corporation, a merchant bank specializing in the small-to-mid-cap market. He is a director of Lonestar West Inc. (TSXV: LSI) and Swisher Hygiene Inc. (TSX: SWI and NASDAQ: SWSH) and has served on the boards of numerous public and private companies.

SIMONE SERRUYA

Simon is co-owner of Yogen Früz/Swensen's International, a foodservice firm with 1,100 locations in over 30 countries worldwide. He has been with the company since 1987, and was instrumental in the growth of Yogen Früz both domestically and internationally, taking the company public in 1994, and recently taking it private.

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") of Carfinco Income Fund (the "Fund" or "Carfinco" or "we" or "our") should be read in conjunction with the Fund's audited consolidated financial statements for the years ended December 31, 2010 and 2009, and the accompanying notes to those consolidated financial statements. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") and are reported in Canadian dollars.

OVERVIEW

Carfinco Income Fund is an unincorporated open-end mutual fund trust established under the laws of Ontario by a Deed of Trust made as of August 26, 2002, as amended and restated on April 23, 2004. 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 a 96.10% interest in Carfinco Limited Partnership, and Carfinco Inc. holds the remaining 3.90% interest, and is the general partner of Carfinco Limited Partnership. The Fund's units trade on The Toronto Stock Exchange under the symbol "CFN.UN."

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 uses its borrowings under its credit facility, and the issuance of debt and equity. The Fund generates interest and fee income on its finance receivables and pays interest on borrowings under its credit facility and on outstanding subordinated debentures.

Cautionary Statement

This analysis has been prepared taking into consideration information available to March 7, 2011. Certain statements contained in this annual report constitute "forward-looking statements." When used in this annual report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Fund, its subsidiaries or their management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to inherent risks, uncertainties and numerous assumptions, including, without limitation, general economic conditions, reliance on debt financing, dependence on non-prime borrowers, inability to sustain receivables, competition, interest rates, regulation, insurance, failure of key systems, debt service, future capital needs and such other risks or factors described from time to time in reports of Carfinco Income Fund that are filed with securities regulatory authorities.

By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific, which contribute to the possibility that predictions, forecasts, projections and other forms of forward-looking information may not be achieved. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements and readers are cautioned that the list of factors in the foregoing paragraph is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements or interpret or regard forward-looking statements as guarantees of future outcomes.

In addition to the careful consideration of the risks described herein, investors should also consider the risk factors set forth in the most recently filed Annual Information Form of the Fund which is incorporated by reference herein. The Annual Information Form is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.

Description of Non-GAAP Measures

Throughout this MD&A, management uses the following terms and ratios not found in the Handbook of the Canadian Institute of Chartered Accountants ("CICA") and which do not have a standardized meaning under GAAP; therefore, requiring definition.

Management's Discussion and Analysis

Distributable cash

Distributable cash is a non-GAAP measure generally used by Canadian income trusts as an indicator of financial performance, and it should not be seen as a measurement of liquidity, or a substitute for comparable metrics prepared in accordance with GAAP. This measure is commonly used by investors, management, and other stakeholders to evaluate the ongoing performance of the Fund. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities. For reconciliation with GAAP, please refer to the "Distributable Cash" section.

Cash distributions per unit and payout ratio

The Fund reports on cash distributions per unit and payout ratio (actual cash distribution divided by distributable cash) because they are key measures used by investors to value the Fund, assess its performance and provide an indication of the sustainability of distributions. Cash distributions per unit and the payout ratio depend on the Fund's distributable cash and the Fund's distribution policy.

Financial leverage ratio and total capitalization

The financial leverage ratio is defined as total liabilities excluding derivatives and subordinated debentures divided by total capitalization. Total capitalization is defined as the total of unitholders' equity, derivatives, and subordinated debentures. The financial leverage ratio provides an indication of the extent to which the Fund relies on debt financing.

Average portfolio yield

Average portfolio yield is financial revenue divided by average finance receivables in the period.

Net financial margin

Net financial margin is equal to net financial income before operating expenses and income taxes divided by financial revenue.

Net financial margin on portfolio assets

Net financial margin on portfolio assets is equal to net financial income before operating expenses and income taxes divided by average finance receivables for the period.

Average cost of borrowing

Average cost of borrowing is equal to interest expense divided by the average bank credit facility and subordinated debentures for the period.

Annualized loss rate

Annualized loss rate is equal to net write-offs recorded through the allowance for credit losses and dealer reserve divided by average finance receivables for the period.

Operating expense ratio on portfolio assets

The operating expense ratio on portfolio assets is calculated as total operating expenses, excluding (gain) loss on derivatives, divided by average finance receivables.

Operating expense ratio on financial revenue

The operating expense ratio on financial revenue is calculated as total operating expenses, excluding (gain) loss on derivatives, divided by total financial revenues.

Pre-tax return on portfolio assets

Pre-tax return on portfolio assets is calculated as net earnings before income taxes divided by average finance receivables.

Management's Discussion and Analysis

RECENT EVENTS

Increase in Bank Credit Facility

On June 22, 2010, the Fund announced that its credit facility had been increased to \$105 million, up from \$85 million and was extended for three years to June 30, 2013. The banking syndicate remained the same with Bank of America, N.A., Bank of Montreal, and Wells Fargo Financial Corporation Canada providing the facility. The increase in the facility will assist the Fund in achieving our objective of growing the finance receivable portfolio by approximately 20% per year.

Expansion into Quebec

On November 25, 2010, the Fund announced that it had commenced operations in the province of Quebec. The geographical expansion enhances Carfinco's strategy of growing the Fund's finance receivables and makes Carfinco a truly national lender, providing non-prime automotive financing in all 10 Canadian provinces. Quebec has a population of 7.9 million people, representing approximately 23% of Canada's population and presents a significant growth opportunity for Carfinco.

FBR Capital Markets

On January 12, 2011, the Fund announced that it had retained FBR Capital Markets & Co. ("FBR") to assist its Board of Trustees in identifying, examining and considering a range of strategic alternatives available to the Fund, with a view to maximizing unitholder value. These alternatives include, but are not limited to, the potential sale of all or a majority of the assets or units of the Fund.

The Fund will be continuing with all of its previously planned business objectives throughout the review of strategic alternatives and there can be no assurance that the review will result in any specific transaction.

OUTLOOK AND ECONOMIC CONDITIONS

Carfinco has continued to produce strong financial results with earnings for the year ended December 31, 2010 reaching record levels for the Fund. Changes to the Fund's credit and collection procedures implemented in 2008, accompanied by investments in the Fund's technology infrastructure throughout 2009 and 2010, have produced favorable outcomes as provisions for credit losses, contractual delinquencies, and the Fund's operating expense ratio on portfolio assets each declined throughout 2010.

The global economy has recovered at a faster pace than many had anticipated, however, risks remain elevated as there continue to be ongoing concerns over sovereign balance sheets throughout Europe, and with some emerging markets beginning to implement more restrictive policy measures to prevent overheating of their own economies. In Canada, the fourth quarter 2010 GDP increased 0.8% over the prior quarter (3.3% annualized). For the year 2010 as a whole, real GDP grew 3.1% with the Bank of Canada forecasting modest growth of 2.4% in 2011, and 2.8% in 2012¹.

Since January 2010, overall employment levels have risen 1.9%². This continues a positive employment trend in Canada reflective of a recovering economy, which would positively impact Carfinco's consumer base and reduce contractual delinquencies. However, current unemployment levels are still substantially above pre-recession levels that ranged between 6.0% to 6.3% in fiscal 2007 and the first half of 2008.

Given the current economic environment, the Fund feels it appropriate to remain prudent and to not relax credit criteria to increase loan originations. Growth within the Fund's existing geographic segments and expansion into Quebec are anticipated to provide growth in the loan portfolio of 20% in fiscal 2011. Loan losses are expected to continue to remain lower than recessionary levels experienced in 2008 and 2009; however, as the Fund grows its finance receivable portfolio, increases in the allowance for credit losses may be necessary to absorb potential credit losses arising on new volume.

¹ Bank of Canada, *Monetary Policy Report*, January 2011

² Statistics Canada, *Labor Force Survey*, January 2011

Management's Discussion and Analysis

SELECTED FINANCIAL INFORMATION AND FINANCIAL RATIOS

The following table summarizes key financial data to be read in conjunction with the audited financial statements of the Fund as at and for the years ended December 31, 2010, 2009, and 2008. Such financial statements are prepared in accordance with GAAP.

| As at and for the Years ended, (in \$000's for stated values, except ratios and per unit amounts) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| Total revenue | \$ 37,895 | \$ 32,631 | \$ 31,649 |
| Net earnings (loss) | 20,664 | 7,341 | (1,988) |
| per fund unit, basic and diluted | 0.84 | 0.30 | (0.08) |
| Total assets | 126,502 | 97,687 | 94,491 |
| Finance receivables | 139,478 | 113,222 | 108,017 |
| Loan originations | 97,030 | 67,820 | 74,279 |
| Cash distributions | 14,262 | 4,200 | 1,890 |
| per fund unit | \$ 0.595 | \$ 0.180 | \$ 0.081 |
| Financial leverage ratio | 3.14:1 | 2.66:1 | 2.86:1 |
| Allowance and dealer reserve as a percentage of finance receivables | 13.3% | 15.6% | 13.6% |
| Return on average unitholders' equity | 77.2% | 33.6% | (9.0%) |
| Return on average finance receivables | 16.4% | 6.6% | (2.0%) |
| Book value per fund unit | \$ 1.22 | \$ 0.98 | \$ 0.87 |

Highlights

The Fund achieved record net earnings of \$20,664,262 (\$0.84 per fund unit – basic and diluted) for the year ended December 31, 2010 surpassing the previous record of \$7,341,047 (\$0.30 per fund unit – basic and diluted) recorded in the year ended December 31, 2009. The earnings also represent a significant increase versus the loss of \$1,987,563 (\$0.081 per fund unit – basic and diluted) recognized in the year ended December 31, 2008 when the Fund experienced higher delinquencies and increased write-offs in the finance receivables portfolio as the Fund's customer base was highly impacted during the global economic recession.

As at December 31, 2010, management continued to be successful in managing contractual delinquencies with amounts over 30 days outstanding decreasing to 2.9% of the finance receivables portfolio compared to 4.6% as at December 31, 2009 and 7.1% as at December 31, 2008. In addition, no amounts were contractually delinquent greater than 90 days.

Finance receivables were \$139,478,407 at the end of the year, up 23.2% from \$113,222,303 as at December 31, 2009 on loan originations of \$97,029,522 for the year representing an increase of 43.1%, from \$67,819,836 for same period in fiscal 2009. This growth achieved management's target of 20% growth in the finance receivable portfolio in 2010. In fiscal 2010, management made concerted efforts to increase loan originations, whereas in 2009, loan originations had decreased over the 2008 fiscal year as credit policies were tightened, and the Fund focused on retaining capital and reducing losses.

For the year ended December 31, 2010, monthly and quarterly special cash distributions totaled \$14,262,242 (\$0.595 per fund unit) on distributable cash of \$16,067,228 equating to a payout ratio of 88.8%. For the comparative period, cash distributions totaled \$4,200,226 on distributable cash of \$5,868,945 equating to a payout ratio of 71.6%. Despite become a taxable entity on January 1, 2011, management intends on maintaining its monthly cash distribution of 2.0 cents per unit.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

The following table summarizes consolidated financial results for each of the respective periods:

| Years ended, (in \$000's for stated values, except per unit amounts) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| Financial revenue | \$ 37,895 | \$ 32,631 | \$ 31,649 |
| Financial expenses | | | |
| Provision for credit losses | 6,581 | 13,115 | 18,262 |
| Interest expense | 4,288 | 4,191 | 4,689 |
| Net financial income before operating expenses and income taxes | 27,026 | 15,325 | 8,698 |
| Operating expenses | 9,189 | 8,099 | 10,686 |
| Income tax expense (recovery), future | (2,827) | (115) | - |
| Net earnings and comprehensive income | \$ 20,664 | \$ 7,341 | \$ (1,988) |
| per fund unit, basic and diluted | \$ 0.84 | \$ 0.30 | \$ (0.08) |

Financial Revenue

Carfinco purchases loans, originated by select independent and franchise vehicle dealers to consumers buying late model used automobiles that are typically unable to obtaining financing from traditional sources. The Fund generates interest and administration fee revenues on these finance receivables. For the year ended December 31, 2010, revenues were \$37,895,447 compared to \$32,630,841 for the same period in fiscal 2009 representing an increase of 16.1%. Revenues are anticipated to move in conjunction with the growth in the finance receivable portfolio with the larger portfolio generating additional interest revenue and collection activity generating additional administration fee revenue. The following table summarizes revenues by category:

| Years ended, (in \$000's, except ratios) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| Interest revenue | \$ 35,290 | \$ 30,481 | \$ 29,666 |
| Administration fees | 2,605 | 2,150 | 1,983 |
| | \$ 37,895 | \$ 32,631 | \$ 31,649 |

Ratios

| | | | |
|-------------------------|-------|-------|-------|
| Average portfolio yield | 30.0% | 29.5% | 31.3% |
|-------------------------|-------|-------|-------|

Interest revenue includes interest earned on finance receivables, fee income charged to the customer at inception, and transaction costs incurred by the Fund upon granting loans to customers. The fee income and transaction costs are deferred at inception and recognized into interest revenue using the effective interest method over the term of the loan. For the year ended December 31, 2010, interest revenues increased by \$4,809,174 or 15.8% over the prior year comparative period. The increase was attributable to growth in the average finance receivable balance outstanding during the period.

Administration fee revenues are earned from fees charged to the customer subsequent to the origination of the finance receivable and are expected to fluctuate based upon customer collection rates and delinquencies. During the year ended December 31, 2010 administration fee revenues increased \$455,432, or 21.2%, to \$2,605,396 from \$2,149,964 in the prior year. Overall, increases in administration fee revenues over the prior year comparatives occurred as a result of growth in the finance receivable portfolio resulting in additional collection activity.

The average portfolio yield for the year was 30.0% slightly up from the 29.5% experienced in fiscal 2009.

Management's Discussion and Analysis

Financial Expenses

The following table summarizes financial expenses:

| Years ended, (in \$000's for stated values, except ratios) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|----------------------|
| Provision for credit losses | \$ 6,581 | \$ 13,115 | \$ 18,262 |
| Interest expense | 4,288 | 4,191 | 4,689 |
| | \$ 10,869 | \$ 17,306 | \$ 22,951 |
| Net financial income before operating expenses and income taxes | \$ 27,026 | \$ 15,325 | \$ 8,698 |

Ratios

| | | | |
|--|-------|-------|-------|
| Net financial margin | 71.3% | 47.0% | 27.5% |
| Net financial margin on portfolio assets | 21.4% | 13.9% | 8.6% |
| Average cost of borrowing | 5.2% | 6.0% | 7.3% |
| Annualized loss rate | 14.6% | 19.1% | 18.6% |

Provision for credit losses

The provision for credit losses decreased \$6,534,251, or 49.8%, from \$13,114,756 for the year ended December 31, 2009 to \$6,580,505. In the current year, the provision for credit losses included a reduction in the allowance for credit losses of \$750,000. The Fund continues to closely monitor contractual delinquencies and credit loss experience making additional provisions for (reductions in) the allowance for credit losses, as it deems appropriate. In the current year the reduction in the allowance for credit losses occurred as the Fund experienced continued improvements in contractual delinquencies and management adjusted expectations on loan losses to lower levels. In addition, an overall shift in portfolio mix from the Fund's regular program towards the GO Plan has reduced the provision for credit losses as net write-offs under the GO Plan are recorded through the dealer reserve, and to date, reserves on new volume have been sufficient to cover all write-offs incurred in this portfolio.

Loans are normally written off when there is no realistic prospect of recovery of the amounts outstanding. Under the Fund's bank credit facility covenants, at 120 days contractual delinquent the relationship with the customer is judged to have broken down and loans are required to be written-off. However, loans may be written-off at less than 120 days contractual delinquent at the discretion of management if through the examination of contractual delinquency and an individual borrower's financial condition it is determined that there is no realistic prospect of recovery of a debtor's obligation. Accounts identified as impaired, but not written-off, are allowed for in establishing and maintaining the allowance for credit losses. Throughout fiscal 2010, management wrote-off all loans in contractual arrears greater than 90 days.

The annualized loss rate is the calculation of write-offs, net of recoveries, in the year recorded through the allowance for credit losses and dealer reserve divided by the average finance receivables over the same period. Management utilizes the annualized loss rate as an alternative measure to the provision for credit losses in examining loan losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period, and captures loan losses absorbed by the dealer reserve that are not reflected in net earnings. The annualized loss rate for the year ended December 31, 2010 was 14.6% down from 19.1% for the year ended December 31, 2009. During fiscal 2009 and 2008, the Fund experienced higher delinquencies and write-offs as a recessionary economy significantly impacted Carfinco's customer base. A portion of the reduction in write-offs is due to an overall strengthening in the economic environment, however, it also illustrates the overall improvement in the credit quality of the Fund's finance receivable portfolio as a result of modifications that were made to the Fund's credit criteria in the fourth quarter of 2008. The changes were made in effort to decrease credit risk during a period of significant economic uncertainty. No material modifications have been made the Fund's credit criteria since that time.

Throughout fiscal 2010 the Fund began to see contractual delinquencies return to more normalized levels and anticipates future write-offs to remain similar to current levels.

As the Fund works to achieve growth in the finance receivable portfolio in excess of 20% per annum, increases in the allowance for credit losses may be necessary to absorb potential credit losses arising on new volume.

Management's Discussion and Analysis

Interest expense

Interest expense for the year ended December 31, 2010 increased \$97,075, or 2.3%, from \$4,190,830 for the year ended December 31, 2009 to \$4,287,905. The increase in interest expense over the prior year comparative is primarily due to an overall increase in the average outstanding balance on the Fund's bank credit facility and due to increases in the prime interest rate. The annualized cost of borrowing decreased to 5.2% for the year ended December 31, 2010 to 6.0% in the comparative period. The decrease in the average cost of borrowing is primarily due to the repayment of the full outstanding balance of \$2,143,000 on the Fund's subordinated debt during the second quarter of 2010, which bore interest at an annual rate of 14.0%. In addition, on August 23, 2010, one of the Fund's interest rate swap agreements with a notional value of \$10,000,000 and a fixed interest rate of 4.92% expired, lowering the Fund's monthly interest cost. As the Fund focused on increasing loan originations during fiscal 2010, additional advances on the bank credit facility were required to fund the acquisition of finance receivables.

Operating Expenses

The following table summarizes operating expenses:

| Years ended, (in \$000's for stated values, except ratios) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| General and administrative | \$ 9,564 | \$ 8,803 | \$ 9,006 |
| (Gain) loss on derivatives | (548) | (887) | 1,543 |
| Amortization of equipment | 173 | 183 | 137 |
| | \$ 9,189 | \$ 8,099 | \$ 10,686 |
| Net earnings (loss) before income taxes | \$ 17,837 | \$ 7,226 | \$ (1,988) |

Ratios

| | | | |
|--|-------|-------|--------|
| Operating expense ratio on portfolio assets | 7.7% | 8.1% | 9.0% |
| Operating expense ratio on financial revenue | 25.7% | 27.5% | 28.9% |
| Pre-tax return on portfolio assets | 14.1% | 6.5% | (2.0%) |

General and administrative

Significant components of the Fund's general and administrative expenses include salaries and benefits, office and general expenses, professional fees, and loan administration costs not directly tied to the acquisition of a finance receivable.

For the year ended December 31, 2010 general and administrative expenses increased \$761,122, or 8.6%, to \$9,564,540 from \$8,803,418 for the year ended December 31, 2009. The increase in general and administrative expenses was due to an overall expansion in the Fund's operational structure to accommodate growth in the finance receivables portfolio.

As a percentage of revenue, general and administrative expenses decreased to 25.7% from 27.5% year-over-year. In addition, as a percentage of portfolio assets, this ratio declined to 7.7% from 8.1% in the prior year comparative period. The decline in these ratios was the result of efforts made by management to increase operating efficiencies including notable improvements to technology infrastructure that commenced in the latter half of 2009 and continued throughout 2010. This includes the use of GPS starter interrupt devices under certain finance programs, implementation of a document image system across all departments, and improvements in the Fund's internal reporting systems, all of which have allowed the Fund to grow its loan portfolio without requiring a proportionate increase in customer service and collection staff minimizing the impact growth in the portfolio has had on salary and benefit expenditures.

Amortization

Amortization expense decreased \$10,388, or 5.7%, from \$183,198 for the year ended December 31, 2009 to \$172,810 for the year ended December 31, 2010. Equipment purchases of \$151,784 and \$99,790 were made during the years ended December 31, 2010 and 2009 respectively. The equipment purchases were made in the normal course of operations.

Management's Discussion and Analysis

(Gain) loss on derivatives

On August 23, 2007, the Fund entered into two interest rate swap agreements with a combined notional amount of \$20,000,000. The first agreement had a notional amount of \$10,000,000, a fixed bankers' acceptance rate of 4.92% and a three-year term that ended on August 23, 2010. The second agreement has a notional amount of \$10,000,000, a fixed bankers' acceptance rate of 4.99% and a five-year term ending on August 23, 2012. During 2010, a gain on derivatives of \$547,532 was recorded and as at December 31, 2010, the fair value of the remaining interest rate swap was a liability of \$548,596 (December 31, 2009 - \$1,096,128).

The interest rate swap agreements have been classified as "held-for-trading" financial instruments and are recognized at fair value with all gains and losses being recorded through net earnings. The Fund enters into interest rate swaps to lock the interest rate on a portion of its debt for longer periods and does not hold any derivative financial instruments for trading or speculation purposes.

Income Taxes

The Fund is a "mutual fund trust" for income tax purposes. As such, the Fund is taxed on any taxable income not allocated to unitholders. Pursuant to the Deed of Trust, all or virtually of all the taxable income is allocated to unitholders; consequently, there is no current tax liability for the Fund.

In 2007, the *Income Tax Act* (Canada) was amended to impose on Canadian public income trusts, an entity-level tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation and to prevent such trusts from deducting trust distributions when calculating taxable income. A transition period applicable to publicly traded trusts that existed prior to November 1, 2006 delayed the application of these rules until the earlier of January 1, 2011 or the year in which a publicly traded trust exceeds the "normal growth guidelines" issued by the Department of Finance, which the Fund did not exceed. The payment of such taxes will, reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders. The amendment to the *Income Tax Act* (Canada) also re-characterizes distributions as eligible dividends received from a taxable Canadian corporation which will generally be beneficial to Canadian resident investors holding their units in taxable accounts compared to the current characterization of distributions to unitholders primarily as ordinary income.

Since the announcement of this change in tax legislation, which became effective for the Fund on January 1, 2011, management and the Trustees have monitored the changes in the income trust environment and capital markets and continue to review potential impacts on the Fund's current strategies and the alternatives available to the Fund, consistent with protecting and enhancing unitholder value. As part of this assessment, the Trustees announced an intention to maintain monthly cash distributions at 2 cents per unit to unitholders subsequent to becoming a taxable entity. The Fund's distribution policy is to make distributions to unitholders consistent with good business practices, considering requirements for capital expenditures, working capital and other reserves considered advisable by the Trustees of the Fund. All such distributions are discretionary. At this time, the Trustees believe that remaining a trust is in the best interest of unitholders and the business. The Trustees will continue to examine all available alternatives for the structure of the Fund and can choose to convert to a new structure on a tax-deferred basis until December 31, 2012. If the Trustees decide, in the future, to change the Fund's existing structure, there is no way of determining the potential impact (positively or negatively) that any such change might have on the value or trading price of units or any publicly traded replacement securities.

The Fund follows the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets, liabilities, and losses carried forward, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. For the year ended December 31, 2010, a future income tax recovery of \$2,827,043 (December 31, 2009 - \$115,060) was recognized. Included in the fiscal 2010 tax recovery was \$2,647,475 that related to the realization of previously unrecognized timing differences that existed between the financial reporting and tax basis of some of the Fund's assets and liabilities. These future income tax assets and liabilities were not previously recognized as the temporary timing differences were set to reverse prior to the Fund becoming a taxable entity. Please refer to note 13 (Income Taxes) in the Fund's audited annual consolidated financial statements for the year ended December 31, 2010 for additional information.

Management's Discussion and Analysis

CONSOLIDATED FINANCIAL POSITION

The following table summarizes the Fund's consolidated financial position for the periods presented.

| As at (in \$000's for stated values) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--------------------------------------|----------------------|----------------------|----------------------|
| Finance receivables – net | \$ 120,974 | \$ 95,585 | \$ 93,372 |
| Non-portfolio assets | 5,528 | 2,101 | 1,119 |
| Total assets | 126,502 | 97,686 | 94,491 |
| Bank credit facility | 93,160 | 68,438 | 67,878 |
| Subordinated debentures | - | 2,143 | 2,300 |
| Other liabilities | 3,302 | 3,639 | 4,091 |
| Total liabilities | 96,462 | 74,220 | 74,269 |
| Unitholders' equity | \$ 30,040 | \$ 23,466 | \$ 20,222 |

Assets

Total assets increased by \$28,815,130, or 29.5%, to \$126,501,816 as at December 31, 2010 from \$97,686,686 as at December 31, 2009. As at December 31, 2010, non-portfolio assets represented 4.4% (December 31, 2009 – 2.2%) of total assets. The portfolio assets include finance receivables, the allowance for credit losses, and the dealer reserve.

Finance receivables

| As at (in \$000's for stated values, except ratios) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|----------------------|
| Principal balance of finance receivables | \$ 140,830 | \$ 113,791 | \$ 109,289 |
| Unearned administration fees | (3,489) | (2,442) | (3,187) |
| Accrued interest | 2,137 | 1,873 | 1,915 |
| Finance receivables | 139,478 | 113,222 | 108,017 |
| Allowance for credit losses and dealer reserve | (18,504) | (17,637) | (14,645) |
| Finance receivables – net | \$ 120,974 | \$ 95,585 | \$ 93,372 |

Ratios

| | | | |
|--|-------|-------|-------|
| Allowance and reserve as a percentage of finance receivables | 13.3% | 15.6% | 13.6% |
|--|-------|-------|-------|

Finance receivables grew during 2010 by \$26,256,104, or 23.2%, to \$139,478,407. Funds advanced on finance receivables for the year ended December 31, 2010 were \$79,592,969, an increase of \$25,070,632, or 46.0%, from \$54,522,337 for the year ended December 31, 2009. The increase in finance receivables and funds advanced is attributable to the Fund's focus on achieving 20% growth in the finance receivable portfolio in fiscal 2010. Management intends to have growth of 20% in the finance receivable portfolio in the fiscal 2011 year.

All finance receivables are secured, under the applicable provincial personal property registry, by motor vehicle collateral. The Fund's strategy continues to be that of the alternative lender to major financial institutions in the higher-risk used vehicle finance market.

Management's Discussion and Analysis

Allowance for credit losses and dealer reserve

The management of the Fund establishes and maintains an allowance for credit losses, which it considers adequate to absorb probable credit losses existing in the finance receivable portfolio. The Fund's allowance for credit losses and dealer reserve had a combined increase of \$867,266, or 4.9%, to \$18,504,357 at December 31, 2010 from \$17,637,091 at December 31, 2009. As a percentage of finance receivables, the allowance for credit losses and dealer reserve decreased to 13.3%, down from 15.6% at the end of the prior year. The decline in this percentage is due to overall growth in the finance receivable portfolio and a reduction in the allowance for credit losses of \$750,000. The Fund will continue to monitor its credit loss experience and make additional provisions or reductions to the allowance for credit losses, as it deems appropriate. Although the Fund uses various models and methodologies to assess the adequacy of loss reserves, there is no precise method for estimating the losses existing in the finance receivable portfolio.

Delinquency and losses

Credit losses, delinquency and provisions as at, and for each of the respective periods, were as follows:

| Years ended, (in \$000's) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|----------------------|
| Allowance for credit losses, beginning of year | \$ 12,400 | \$ 12,190 | \$ 6,470 |
| Provisions for credit losses | 6,581 | 13,115 | 18,262 |
| Write-offs | (9,370) | (14,799) | (14,254) |
| Recoveries | 2,039 | 1,894 | 1,712 |
| Allowance for credit losses, end of year | \$ 11,650 | \$ 12,400 | \$ 12,190 |
| Dealer reserve, beginning of year | \$ 5,237 | \$ 2,455 | \$ 2,406 |
| Reserve on new volume | 12,747 | 10,987 | 6,339 |
| Write-offs | (12,312) | (8,918) | (6,811) |
| Recoveries | 1,182 | 713 | 521 |
| Dealer reserve, end of year | \$ 6,854 | \$ 5,237 | \$ 2,455 |

The contractual delinquency and amount of specific impairment at each reporting period is as follows:

| December 31, 2010 | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days plus |
|--------------------------------|----------------|--------------|---------------|---------------|--------------|
| Amount of finance receivables | \$ 128,584,100 | \$ 6,850,400 | \$ 3,183,200 | \$ 860,700 | \$ - |
| Percent of finance receivables | 92.2% | 4.9% | 2.3% | 0.6% | - |
| Amount specifically impaired | \$ 1,445,000 | \$ 590,600 | \$ 1,369,300 | \$ 860,700 | \$ - |
| December 31, 2009 | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days plus |
| Amount of finance receivables | \$ 100,012,500 | \$ 7,983,700 | \$ 3,530,300 | \$ 1,695,800 | \$ - |
| Percent of finance receivables | 88.3% | 7.1% | 3.1% | 1.5% | - |
| Amount specifically impaired | \$ 1,199,100 | \$ 555,500 | \$ 1,206,700 | \$ 1,695,800 | \$ - |
| December 31, 2008 | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days plus |
| Amount of finance receivables | \$ 91,341,800 | \$ 8,931,200 | \$ 3,579,700 | \$ 2,096,100 | \$ 2,068,200 |
| Percent of finance receivables | 84.6% | 8.3% | 3.3% | 1.9% | 1.9% |
| Amount specifically impaired | \$ 701,700 | \$ 305,000 | \$ 668,300 | \$ 2,096,100 | \$ 2,068,200 |

Management's Discussion and Analysis

Specific impairment is identified at the end of each reporting period by making judgments about the probability of an account going into default based upon information known by the Fund. This includes assessing contractual delinquency, the borrower's financial condition such as the identification of a debtor entering bankruptcy, or other conditions such as the Fund being in the process of legal or collateral repossession proceedings with the debtor. Accounts over 60 days contractually delinquent are automatically considered to be impaired and are fully allowed for. Accounts contractually delinquent less than 60 days are allowed for based upon applying probability-weighted assumptions on the chances of an identified account resulting in a consumer default. The methodology for identifying and allowing for accounts identified as impaired has remained consistent over all periods presented.

Liabilities

Total liabilities increased by \$22,242,123, or 30.0%, to \$96,461,778 at December 31, 2010, from \$74,219,655 at December 31, 2009. The increase is primarily due to an increase in the outstanding balance on the Fund's bank credit facility of \$24,721,792, which was partially offset by a decrease in subordinated debt of \$2,143,000 and combined decreases of \$336,669 in accounts payables and accrued liabilities, the deferred dealer obligation, and derivatives.

Bank credit facility

The Fund executed an Amended and Restated Credit Facility on February 13, 2008, as amended on May 20, 2008, December 15, 2008, June 22, 2010, and September 30, 2010 with the Bank of America, N.A., Wells Fargo Financial Corporation Canada and the Bank of Montreal as co-lenders. The amount of borrowings available under this facility was increased during the year to \$105,000,000 (December 31, 2009 - \$85,000,000), subject to a defined borrowing base and a maximum financial leverage ratio of 3.50:1 (December 31, 2009 - 3.75:1). The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at December 31, 2010 a total of \$93,159,937 (December 31, 2009 - \$68,438,145) was outstanding under the credit facility. The maturity date of the credit facility is June 30, 2013 (December 31, 2009 - December 15, 2010).

Deferred dealer obligation

The deferred dealer obligation represents the estimated additional purchase consideration owed to the dealers on loans financed at a discount. Under this program, the dealer can receive additional purchase consideration based upon the collection performance of these finance receivables. The balance is composed of the accumulated obligations recorded on the origination of these finance receivables and of charges to interest revenue based upon estimates of the obligation balance.

The deferred dealer obligation increased by \$6,704 or 0.4% during the year ended December 31, 2010, from \$1,847,863 at December 31, 2009 to \$1,854,567 at December 31, 2010. The obligation is based on assessing the historical collection data on this program and measuring the most likely outcome while taking into consideration a range of other possible outcomes. Changes in circumstances may cause significant differences in future assessments and require increases or decreases in the deferred dealer obligation.

Subordinated debentures

To manage the Fund's capital and financial leverage available under the bank credit facility, subordinated debentures are periodically issued. In fiscal 2008, the Fund issued \$2,300,000 of fully redeemable, unsecured subordinated debentures with an interest rate of 14% per annum and a maturity date of April 30, 2010. During the second quarter of 2010, the Fund repaid the outstanding principal balance and accrued interest of the subordinated debentures, which accounted for the change in the balance during the year.

Management's Discussion and Analysis

Unitholders' Equity

The unitholders' equity increased \$6,573,007, or 28.0%, during the year ended December 31, 2010 from \$23,467,031 at December 31, 2009, to \$30,040,038. The increase is primarily due to net earnings of \$20,664,262 during the period, which was partially offset by cash distributions of \$14,262,242. In addition, increases occurred from \$44,900 in unit based compensation expense, and \$133,332 for proceeds from exercised unit options, while a reduction occurred due to \$7,245 in fund unit issuance costs, net of future income tax effects.

Outstanding unit data

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. Certain employees of the Fund have been granted unit options to purchase units of the Fund.

As at December 31, 2010 and March 7, 2011, there were 24,611,896 units of the Fund issued and outstanding and 33,334 unit options to acquire units outstanding.

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 use of cash has been the funding of advances on finance receivables. The Fund manages its capital resources by utilizing the financial leverage available under the credit facility. When additional capital is required it is raised from operating cash flows and through subordinated debenture or unit issuances.

Management believes that the resources available to the Fund provide the needed capital to fund the anticipated expansion of the finance receivable portfolio and investments in operating infrastructure for the upcoming fiscal year.

The Fund examines financial leverage as a key indicator of the strength of the Fund's balance sheet. Under the terms of the Fund's bank credit facility, the financial leverage cannot exceed 3.50:1 at the end of any period. As at December 31, 2010 the financial leverage was 3.14:1, up from 2.66:1 at the end of 2009. The increase in this ratio is due to advances made on the Fund's bank credit facility and the repayment of the Fund's subordinated debt which reduced the Fund's total capitalization.

Management's Discussion and Analysis

The Fund's capitalization is as follows:

| As at (in \$000s for stated values) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| Bank credit facility | \$ 93,160 | \$ 68,438 | \$ 67,878 |
| Accounts payable and accrued liabilities | 899 | 695 | 503 |
| Deferred dealer obligation | 1,855 | 1,848 | 1,604 |
| Total debt | \$ 95,914 | \$ 70,981 | \$ 69,985 |
| Unitholders' equity | \$ 30,040 | \$ 23,467 | \$ 20,222 |
| Derivatives | 549 | 1,096 | 1,983 |
| Subordinated debt | - | 2,143 | 2,300 |
| Total capitalization | \$ 30,589 | \$ 26,706 | \$ 24,505 |
| Financial leverage | 3.14:1 | 2.66:1 | 2.86:1 |

The Fund monitors the interest coverage ratio as a key indication of the Fund's ability to manage its leverage. Under the terms of the Fund's bank credit facility, the interest coverage ratio must exceed, or be equal to 1.50:1 for each quarterly period.

The interest coverage ratio is calculated as the interest coverage divided by the interest expense and is presented as follows:

| Years ended (in \$000's for stated values, except ratios) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|----------------------|
| Net earnings | \$ 20,664 | \$ 7,341 | \$ (1,988) |
| (Gain) loss on derivatives | (548) | (887) | 1,543 |
| Amortization of equipment | 173 | 183 | 137 |
| Interest expense | 4,288 | 4,191 | 4,689 |
| Interest coverage | \$ 24,577 | \$ 10,828 | \$ 4,381 |
| Interest coverage ratio | 5.73:1 | 2.58:1 | 0.93:1 |

Cash Flow and Liquidity

Cash flows provided by operating activities for the year ended December 31, 2010 was \$26,070,265 compared to \$21,461,059 for the comparative 2009 period representing an increase of \$4,609,206, or 21.5%. The increase in cash flows provided by operating activities was primarily the result of the increased net earnings over the comparative period.

Cash flows used in investing activities for the year ended December 31, 2010 increased to \$33,976,024 from \$17,024,663 for the same period in 2009. The increase of \$16,951,361 over the comparative period was due to increases in funds advanced on finance receivables. As the Fund focuses on growing the finance receivable portfolio throughout fiscal 2010, funds advanced on finance receivables increased to \$79,592,969 for the year ended December 31, 2010 up from \$54,522,337 in 2009.

Management's Discussion and Analysis

Cash flows provided by financing activities for the year ended December 31, 2010 were \$8,277,705 compared to cash flows used in financing activities of \$3,997,884 in the prior year. As management focused on growth in the finance receivable portfolio during the year, advances under the Fund's bank credit of \$24,739,108 were required, compared to net repayments of \$337,913 for the year ended December 31, 2009, when growth in the portfolio was curtailed. Advances on the bank credit facility during 2010 were partially offset by cash distributions of \$14,262,242 (2009 – \$4,200,226), and repayments on the Fund's subordinated debt of \$2,143,000 (2009 - \$157,000).

Debt and Contractual Repayment Obligations

The following table presents the Fund's future payment obligations for certain undiscounted financial liabilities and other contractual obligations:

| | 2011 | Total |
|-----------------------------------|---------------|---------------|
| Bank credit facility ¹ | \$ 93,309,766 | \$ 93,309,766 |
| Operating leases ² | 393,000 | 393,000 |
| | \$ 93,702,766 | \$ 93,702,766 |

- (1) The bank credit facility is a demand loan with a stated maturity date of June 30, 2013. The above amount excludes unamortized deferred transaction costs as presented in Note 8 of the Fund's audited consolidated financial statements.
- (2) The Fund is committed to a long term operating lease for building space. Amounts presented represent the minimum annual lease payments, plus estimated operating costs required.

DISTRIBUTABLE CASH

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 (Canada), to the unitholders of the Fund. If the Fund does not pay cash distributions for the total income of the Fund, determined in accordance with the Income Tax Act (Canada), the remaining income of the Fund is distributed through additional Trust units having a value equal to the cash shortfall.

The Fund's distribution policy is to make distributions to unitholders of its available cash consistent with good business practices, considering requirements for capital expenditures, working capital and other reserves considered advisable by the Trustees of the Fund. All such distributions are discretionary. Overall, the Fund capitalizes an insignificant amount; therefore, no deduction is made for productive capacity maintenance when calculating distributable cash. The Fund's ability to maintain productive capacity is expensed on an annual basis.

Management's Discussion and Analysis

The following is a calculation of the Fund's distributable cash:

| Years ended (in \$000's for stated values, except percentages) | December 31, 2010 | December 31, 2009 | December 31, 2008 |
|--|----------------------|----------------------|----------------------|
| Cash provided by operating activities | \$ 26,070 | \$ 21,461 | \$ 18,358 |
| Add (deduct): | | | |
| Long term unfunded contractual obligations ¹ | (2,124) | (1,800) | (1,374) |
| Significant changes in non-cash items during the period ² | (7,879) | (13,792) | (11,000) |
| Distributable cash | \$ 16,067 | \$ 5,869 | \$ 5,984 |
| Cash distributions paid during the period | \$ 14,262 | \$ 4,200 | \$ 1,890 |
| Payout ratio | 88.8% | 71.6% | 31.6% |
| Distributable cash per weighted average units outstanding | \$ 0.654 | \$ 0.239 | \$ 0.244 |
| Cash distributions per fund unit | \$ 0.595 | \$ 0.180 | \$ 0.081 |
| Unit distributions per fund unit | 0.190 | 0.064 | - |
| Total distributions per fund unit | \$ 0.785 | \$ 0.244 | \$ 0.081 |

- (1) The Fund records an obligation to dealers that is recorded on the balance sheet as Deferred Dealer Obligation. The provision to fund a portion of such obligations is made through charges to the income statement.
- (2) The significant non-cash items during the period are excluded from the calculation of distributable cash, as their inclusion would not properly reflect the cash available for distribution.

Distributable cash for the year ended December 31, 2010 amounted to \$16,067,228 or \$0.654 per unit, an increase of \$10,198,283, or 173.8% from the year ended December 31, 2009. The Board of Trustees approved the resumption of monthly cash distributions of 1.5 cents per unit, commencing in August 2009 after cash distributions had been halted in March 2008 and subsequently increased the monthly cash distribution rate to 2.0 cents per unit commencing in February 2010. In addition, the Board of Trustees approved that to the extent that the Fund generates taxable income in excess of the monthly cash distributions for any quarter, that all or a portion of the excess taxable income will be distributed in the form of quarterly special distributions. The first special quarterly distribution of 4.0 cents per unit was declared in March 2010 with quarterly special distributions of 10.0 cents per unit being declared in June 2010 and September 2010 and 12.0 cents per unit being declared in December 2010.

Although the Fund intends to continue making distributions to our unitholders, there are numerous factors, which affect the Fund's ability to pay cash distributions, and cash distributions are not assured. The Fund's ability to make cash distributions and the actual amount distributed will depend upon, among other things, financial performance, debt covenants and obligations, the ability to refinance debt obligations on similar terms and at similar interest rates, working capital requirements, possible future tax obligations and future capital requirements. In 2008, the payout ratio was significantly lower than in fiscal 2010 and 2009, as the Fund halted cash distributions in an effort to preserve equity and maintain a strong balance sheet during a period of increased loan losses as a result of the economic recession.

Management's Discussion and Analysis

Additional risk factors that may impact the Fund's ability to pay cash distributions can be found in the section, "Risk Management", and in the Fund's Annual Information Form. Under the terms of our credit facility, the Fund is restricted from declaring distributions and distributing cash if the Fund is in breach of its debt covenants. These covenants include, but are not limited to, a financial leverage ratio, a loan availability calculation, an interest coverage ratio and a taxable income restriction. The Fund's current financial performance meets the covenants under our credit facility.

Distributions

Cash distributions are normally payable by the Fund on a monthly basis to unitholders of record on the 20th business day of each month. Distributions are paid on the last business day of the month. Cash distributions on units of record during the year ended December 31, 2010 and 2009 are summarized as follows:

| Record Date | Payment Date | Cash Distribution per Unit | Total Cash Distribution |
|---|--------------------|-------------------------------|----------------------------|
| January 20, 2010 | January 29, 2010 | \$ 0.015 | \$ 359,003 |
| February 19, 2010 | February 26, 2010 | 0.020 | 478,671 |
| March 19, 2010 | March 31, 2010 | 0.060 | 1,436,012 |
| April 20, 2010 | April 30, 2010 | 0.020 | 478,671 |
| May 20, 2010 | May 31, 2010 | 0.020 | 479,337 |
| June 18, 2010 | June 30, 2010 | 0.120 | 2,876,023 |
| July 20, 2010 | July 30, 2010 | 0.020 | 479,337 |
| August 20, 2010 | August 31, 2010 | 0.020 | 479,337 |
| September 20, 2010 | September 30, 2010 | 0.120 | 2,876,023 |
| October 20, 2010 | October 29, 2010 | 0.020 | 479,337 |
| November 19, 2010 | November 30, 2010 | 0.020 | 480,004 |
| December 20, 2010 | December 31, 2010 | 0.140 | 3,360,487 |
| Total cash distributions for 2010 | | 0.595 | 14,262,242 |
| August 20, 2009 | August 31, 2009 | 0.015 | 350,008 |
| September 18, 2009 | September 30, 2009 | 0.015 | 350,008 |
| October 20, 2009 | October 30, 2009 | 0.015 | 350,008 |
| November 20, 2009 | November 30, 2009 | 0.015 | 350,008 |
| December 18, 2009 | December 31, 2009 | 0.120 | 2,800,194 |
| Total cash distributions for 2009 | | 0.180 | 4,200,226 |
| Accumulated cash distributions to unitholders for 2009 and 2010 | | \$ 0.775 | \$ 18,462,468 |

Management's Discussion and Analysis

CONSOLIDATED FOURTH QUARTER RESULTS (UNAUDITED)

| For the three months ended | December 31, 2010 (unaudited) | December 31, 2009 (unaudited) |
|---|-------------------------------------|-------------------------------------|
| Financial Revenue | | |
| Interest revenue | \$ 9,564,319 | \$ 7,982,675 |
| Administration fees | 719,343 | 579,122 |
| | 10,283,662 | 8,561,797 |
| Financial Expenses | | |
| Interest expense | 1,170,031 | 978,365 |
| Financial income before provision for credit losses | 9,113,631 | 7,583,432 |
| Provision for credit losses | 1,460,082 | 3,039,752 |
| Net financial income before operating expenses and income taxes | 7,653,549 | 4,543,680 |
| Operating Expenses | | |
| General and administrative | 2,438,991 | 2,188,202 |
| Gain on derivatives | (125,087) | (181,683) |
| Amortization of equipment | 41,940 | 44,513 |
| | 2,355,844 | 2,051,032 |
| Earnings before income taxes | 5,297,705 | 2,492,648 |
| Income Taxes | | |
| Current | - | - |
| Future (recovery) | (2,806,533) | (115,050) |
| | (2,806,533) | (115,050) |
| Net earnings and comprehensive income | \$ 8,104,238 | \$ 2,607,698 |
| Earnings per fund unit: | | |
| Basic | \$ 0.33 | \$ 0.11 |
| Diluted | \$ 0.33 | \$ 0.11 |

Revenues for the fourth quarter of 2010 were \$10,283,662, compared to \$8,561,797 for the same period in 2009, an increase of 20.1%. The higher revenues were attributable to the increase in the average finance receivables of 21.4% over the same period.

Interest expense increased from \$978,365 during the fourth quarter of 2009, to \$1,170,031 during the same period in 2010, an increase of 19.6%. The increase was due to increases in the average outstanding balance on the bank credit facility of 34.6% from the fourth quarter of 2009 to the fourth quarter of 2010. As the Fund focused on increasing loan originations during fiscal 2010, additional advances on the bank credit facility were required to fund the acquisition of finance receivables.

Management's Discussion and Analysis

Provision for credit losses decreased from \$3,039,752 for the fourth quarter of 2009, to \$1,460,082 during the same period in 2010, a decrease of 52.0%. The annualized loss rate, for the fourth quarter of 2010 was 12.8% compared to 18.0% in the fourth quarter of 2009. The annualized loss rate is the calculation of write-offs, net of recoveries, in the period recorded through the allowance for credit losses and dealer reserve divided by the average finance receivables over the same period and is a measure utilized by management to examine loan losses incurred during the period while excluding the effect of provisions for (reductions in) the allowance for credit losses during the period, and to capture net write-offs absorbed by the dealer reserve that are not reflected in net earnings. Over the past year, management has seen significant declines in contractual delinquencies that have resulted in reductions in loan write-offs.

General and administrative expenses were \$2,438,991, compared to \$2,188,202 for the same period in 2009, an increase of 11.5%. Amortization of \$41,940 for the quarter was similar to the \$44,513 from the same period in 2009. Overall, growth in the finance receivable portfolio resulted in increases in operating expenses. The operating expense ratio on portfolio assets, which is a measure general and administrative expenses and amortization as a percentage of the average finance receivable balance during the period remained stable at 1.8% for the fourth quarter of 2010 compared to 2.0% in same period in 2009.

Gain on derivatives was \$125,087 during the fourth quarter of 2010, compared to a gain of \$181,683 for the same period in 2009. Income tax expense for the fourth quarter of 2010 was a recovery of \$2,675,187 compared to a recovery of \$115,050 in the comparative 2009 period. The significant change in the tax recovery recognized in the fourth quarter of 2010 related to the realization of previously unrecognized timing differences that existed between the financial reporting and tax basis of some of the Fund's assets and liabilities due to the change in tax status of the entity effective January 1, 2011. Please refer to the "Income Taxes" section of this MD&A, and Note 13 (Income Taxes) in the Fund's consolidated financial statements for the year ended December 31, 2010, for additional information.

Management's Discussion and Analysis

SUMMARY OF QUARTERLY INFORMATION (UNAUDITED)

(\$000's for stated values, except percentages, and per fund amounts)

| | 2010 | | 2009 | |
|---------------------------------------|-----------|----------|----------|----------|
| | Q4 | Q3 | Q2 | Q1 |
| Total revenue | \$ 10,284 | \$ 9,783 | \$ 9,203 | \$ 8,626 |
| Net earnings | 8,104 | 4,645 | 4,340 | 3,575 |
| per fund unit, basic and diluted | 0.33 | 0.19 | 0.18 | 0.15 |
| Finance receivables | 139,478 | 133,332 | 125,477 | 117,820 |
| Funds advanced on finance receivables | 20,271 | 21,091 | 20,646 | 17,584 |
| Loan originations | 24,532 | 25,834 | 25,125 | 21,539 |
| Allowance and dealer reserve | 18,504 | 18,327 | 18,058 | 17,852 |
| as a % of finance receivables | 13.3% | 13.7% | 14.4% | 15.2% |
| Bank credit facility | 93,160 | 87,807 | 81,360 | 71,936 |
| Subordinated debt | - | - | - | 2,143 |
| Unitholders' equity | 30,040 | 26,180 | 25,366 | 24,789 |
| Fund units outstanding | 24,612 | 23,967 | 23,967 | 23,934 |
| Basic weighted average fund units | 24,595 | 24,579 | 24,563 | 24,545 |
| Book value per fund unit | \$ 1.22 | \$ 1.07 | \$ 1.03 | \$ 1.01 |

Revenues are anticipated to move in conjunction with the growth in the finance receivable portfolio with quarterly revenues having increased proportionately with growth in finance receivables since Q1 2009. Throughout fiscal 2009 portfolio growth was modest as the Fund focused on reducing delinquencies that had increased significantly during 2008 as a result of the recession. Commencing in the first quarter of 2009, and continuing through to the fourth quarter of 2010, the annualized loss rate began to stabilize and decline as contractual delinquencies improved. This improvement resulted in reductions in the provision for credit losses over each period with corresponding increases in net earnings.

Commencing in fiscal 2010, the Fund became focused on portfolio growth of 20% per annum, which resulted in increased loan originations and funds advanced on finance receivables when compared to fiscal 2009. In the fourth quarter of 2010, a slight decline in loan originations was experienced which can be attributed to lower originations during the holiday season in the month of December. This is typical in Carfinco's experience.

Historically, the Fund has declared monthly distributions, combined with a special year-end cash and unit distribution to allocate the remainder of the Fund's taxable income to unitholders, pursuant to the Fund's Deed of Trust. In fiscal 2010, the Board of Trustees approved that to the extent that the Fund generates taxable income in excess of the monthly cash distributions for any quarter, that all or a portion of the excess taxable income will be distributed in the form of quarterly special distributions providing a more uniform distribution of taxable income throughout the fiscal year.

Other than the aforementioned, the Fund's financial results are generally not subject to significant seasonal fluctuations.

Management's Discussion and Analysis

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are made with reference to the audited consolidated financial statements for the year ended December 31, 2010. A summary of the Fund's significant accounting policies are presented in Note 2 to those consolidated financial statements. Some of the Fund's accounting policies, as required by generally accepted accounting principles, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Fund believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

Revenue Recognition

Interest revenue is recorded on an accrual basis, where interest is earned over the life of the related finance receivable contract. The accrual of interest revenue is suspended on finance receivables classified as impaired.

Fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables and fees charged to the dealer on the origination of finance receivables are recorded as unearned administration fees and are a component of the finance receivables portfolio. These unearned administration fees are recognized into interest revenue using the effective interest method.

Fees charged to the customer during the subsequent servicing of the finance receivables are recognized upon collection of funds as administration fees revenue.

Allowance for Credit Losses and Dealer Reserve

The management of the Fund establishes and maintains an allowance for credit losses, which it considers adequate to absorb 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 to absorb potential credit losses. The dealer reserve is recorded on certain finance receivables purchased by the Fund at a negotiated price that is less than the original principal amount being financed. Under this program, the dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collection performance of these finance receivables.

The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group after allowances are made for specific impairments. In assessing the allowance for credit losses, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. As a result, establishing a range for the allowance for credit losses is difficult due to the number of uncertainties involved. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and eventual losses.

The allowance for credit losses is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, historical industry ratios of write-offs, historical losses incurred on a static pool basis, estimates of the underlying collateral value, and the Fund's current write-off and recovery experience. Static pool loss rates are a measure of long term performance and credit quality of that pool over time by relating a write-off back to its origination date. Static loss experience is adjusted on the basis of current observable data to reflect changes in current conditions that did not exist in the period on which the historical loss experience is based, and to remove the effect of conditions in the historical period that do not exist currently. Changes in circumstances may cause future assessments to be significantly different than current assessments and may require an increase or decrease in the allowance for credit losses.

Finance receivables are normally written off when there is no realistic prospect of recovery of these amounts. At 120 days contractual delinquency the relationship with the customer is judged to have broken down and loans are written-off. However, loans may be written-off at less than 120 days contractual delinquency at the discretion of management.

Additional information on the allowance for credit losses and dealer reserve can be found in Note 5 and 6 to the consolidated financial statements.

Management's Discussion and Analysis

Deferred Dealer Obligation

The Fund purchases certain finance receivables at a negotiated price that is less than the original principal amount being financed. Under this program, the dealer has a vested interest in the performance of these finance receivables, and can receive additional purchase consideration based upon the collection performance of these finance receivables. The deferred dealer obligation represents the estimated additional purchase consideration owed to the dealers, which is composed of the accumulated obligations recorded on the origination of these finance receivables and of charges to interest revenue based upon estimates of the obligation balance. The obligation is based on assessing the historical collection data on this program and measuring the most likely outcome while taking into consideration a range of other possible outcomes. Changes in circumstances may cause significant differences in future assessments and require increases or decreases in the deferred dealer obligation.

Future Accounting Changes

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public entities would have to adopt International Financial Reporting Standards ("IFRS"), effective for fiscal years beginning on or after January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Fund for the first quarter of 2011, when the Fund will prepare both its current and comparative financial information using IFRS.

The Fund initiated its conversion plan from Canadian GAAP to IFRS in the fourth quarter of 2008. At that time, the Fund developed a project team led by its Chief Financial Officer and other members of its finance group. Since that time, the Fund has identified resource requirements to ensure that appropriate IFRS financial reporting expertise existed within the entity. Commencing in fiscal 2009, key finance staff have undergone educational training to obtain this expertise, and have provided ongoing communication and training to the Fund's Board of Trustees and Audit Committee on the key differences between Canadian GAAP and IFRS, along with progress updates on conversion plan.

The conversion plan includes three phases:

Scoping Phase – a preliminary high-level diagnostic to identify key areas in which there may be significant differences between IFRS and Canadian GAAP for the Fund's consolidated financial statements. This includes preliminary considerations with respect to processes, internal control systems and resources to facilitate the conversion process. The Fund initiated this phase in the first quarter of 2009 and completed this phase in the third quarter of 2009. This phase resulted in the development of a detailed plan under which the design activities are being implemented. This includes the development of an implementation timetable that will occur over upcoming periods leading to the changeover.

Design Phase – establish key milestones for the conversion project and determine internal resource requirements to facilitate the conversion. At this time, a more detailed assessment of the impact of IFRS will be completed. Aspects of this phase were initiated in the third quarter of 2009 and portions of this phase were completed in the fourth quarter of 2010.

Implementation Phase – the conclusions and recommendations arrived at during the design phase are to be implemented. This phase will include monitoring the progress of the implementation of changes to process, procedures and information systems. Portions of this phase were initiated in the fourth quarter of 2010.

Although much of Canadian GAAP is similar to IFRS, there are some GAAP differences that may significantly impact the Fund's financial statements. As the Fund progresses through its conversion plan, the implementation of the plan may change due to changes to IFRS and related interpretation. At this time, the Fund cannot reasonably determine the impact that adopting IFRS will have on its financial position and future results.

As the review of accounting policies is completed, appropriate changes to internal controls over financial reporting and disclosure controls and procedures will be made. At this time, the Fund has not identified any significant necessary modifications to the Fund's internal control policies and procedures, business activities, or IT systems. The certifying officers plan to complete the design, and evaluate the effectiveness of any necessary modifications to internal controls during the implementation phase.

The Fund does not intend to early adopt IFRS prior to January 1, 2011.

Management's Discussion and Analysis

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. This section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Fund is currently evaluating the impact of adopting this standard on its consolidated financial statements. An entity adopting this section also adopts CICA Handbook Section 1582, Business Combinations, and CICA Handbook Section 1602, Non-Controlling Interests.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standard. This section establishes the standards for accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date and that non-controlling interests will be measured at fair value at the date of acquisition. This standard is equivalent to International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011 and earlier adoption is permitted.

Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted.

RELATED PARTY TRANSACTIONS

The Fund's related party transactions are set out in Note 14 to the audited consolidated financial statements for the year ended December 31, 2010. The transactions with related parties occurred in the normal course of operations and are measured at the exchange amount that is the amount of consideration established and agreed to by the related parties.

Patica Securities Limited

The Fund has an agreement with Patica Securities Limited for services provided on an ongoing basis. These services include general strategic advice, operational and financial oversight and review, advice on financial structure, advice on senior and/or subordinated debt and equity structure, communication with stakeholders and other general consulting services. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003, and pursuant to this agreement, Carfinco LP incurs a fixed monthly fee of \$12,500, and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables.

During the year ended December 31, 2010, payments of \$378,000 (2009 - \$388,598) were made to Patica Securities Limited and at December 31, 2010, there was \$31,500 (2009 - \$31,500) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees of the Fund.

Subordinated Debentures

During 2008, the Fund issued 14% debentures in the aggregate principal amount of \$900,000 to related parties. The following table presents subordinated debentures transactions with related parties:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Subordinated debentures issued to related parties | \$ - | \$ 743,000 |

Management's Discussion and Analysis

Included in interest expense for the year ended December 31, 2010 is \$38,473 (2009 - \$114,544) of interest paid to related parties during the period. On April 30, 2010, the Fund repaid the outstanding principal balance and accrued interest on the stated maturity date of the subordinated debentures.

These related parties were Trustees and/or Officers of the Fund or family members of Trustees and/or Officers of the Fund.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has not entered into any off-balance sheet arrangements.

RISK MANAGEMENT

General

The operations of the Fund are affected by trends and factors that the Fund may not be able to control and have the potential of affecting its financial condition, results of operations, and cash flow. These trends and factors may include changes in the vehicle financing market sector and the state of the domestic and global economy. It is not possible for management to accurately predict the impact of changes in the operating environment, nor to predict their effect on the Fund's financial condition and results of operations.

Competitive environment

There can be no assurance that the Fund will be able to compete successfully against its current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Fund. Overall, the market for the financial services offered by the Fund is highly competitive and many of the companies operating in this sector have greater financial, technical and marketing resources than the Fund and generate greater revenues. Relatively low barriers to entry into our markets exist and the Fund expects to face additional competition over time from new entrants into its market sector.

Reliance on key personnel

The Fund is dependent on the abilities, experience and efforts of its senior management and other key employees. If these individuals become unable or unwilling to continue their employment, there may be a material adverse effect on the Fund's financial condition, results of operations and business prospects.

Liquidity risk

As is customary in the Fund's industry, the credit facility and subordinated debt instruments must be renewed on a periodic basis. The Fund has been successful in renewing and expanding these facilities. If the Fund were 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 involves 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. Therefore, write-offs are anticipated. The management of the Fund establishes and maintains an allowance for credit losses, which it considers adequate to absorb probable credit losses existing in the finance receivable portfolio.

The Fund reviews static pool loss rates, historical industry ratios of write-offs, current write-off 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 credit losses. Static pool loss rates are a measure of long term performance and credit quality, where static pool loss rates are calculated by identifying a pool of assets and tracking the performance of that pool by relating a write-off back to its origination date. Although the Fund uses various models and methodologies to assess the adequacy of loss reserves, there is no precise method for estimating the losses existing in the finance receivable portfolio.

Management's Discussion and Analysis

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.

INTERNAL CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and other members of the Fund's Disclosure Committee, on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO and CFO are responsible to design, or cause to be designed under their supervision, internal controls over financial reporting ("ICFR"), to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian Generally Accepted Accounting Principles ("GAAP") used by the Fund.

Disclosure Controls and Procedures

An evaluation of the effectiveness of the Fund's disclosure controls and procedures were conducted as of December 31, 2010, by and under the supervision of the Fund's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO concluded that the disclosure controls and procedures were effective.

Disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting

The Fund's management, including the CEO and CFO, has evaluated the design of the Fund's Internal Controls Over Financial Reporting using the control framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that the Fund's ICFR as of December 31, 2010 were designed and operating effectively, and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Changes in Internal Controls over Financial Reporting

No changes were made to internal controls over financial reporting during the year ended December 31, 2010, that would have materially affected, or would be reasonably considered to materially affect, the Fund's ICFR.

Limitations on the Effectiveness of Disclosure Controls and Internal Controls over Financial Reporting

It should be noted that while the Fund's Chief Executive Officer and Chief Financial Officer believe that the Fund's internal controls system and disclosure controls and procedures provides a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Fund's control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

The Fund will continue to periodically review our disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements, the notes thereto, and other financial information enclosed has been prepared by, and is 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 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 Graf,
President and Chief Executive Officer



Troy Graf,
Executive Vice President and Chief Financial Officer

Independent Auditor's Report

To the Unitholders of Carfinco Income Fund

We have audited the accompanying consolidated financial statements of Carfinco Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of earnings, comprehensive income and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carfinco Income Fund as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
March 7, 2011

Grant Thornton LLP
Chartered Accountants

Consolidated Balance Sheets

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Assets | | |
| Finance receivables (Note 4) | \$ 139,478,407 | \$ 113,222,303 |
| Allowance for credit losses (Note 5) | (11,650,000) | (12,400,000) |
| Dealer reserve (Note 6) | (6,854,357) | (5,237,091) |
| Finance receivables – net | 120,974,050 | 95,585,212 |
| Cash | 839,620 | 467,674 |
| Other assets | 1,338,882 | 1,093,006 |
| Equipment (Note 7) | 352,407 | 373,433 |
| Future income taxes (Note 13) | 2,996,857 | 167,361 |
| | 5,527,766 | 2,101,474 |
| | \$ 126,501,816 | \$ 97,686,686 |
| Liabilities | | |
| Bank credit facility (Note 8) | \$ 93,159,937 | \$ 68,438,145 |
| Accounts payable and accrued liabilities | 898,678 | 694,519 |
| Deferred dealer obligation (Note 9) | 1,854,567 | 1,847,863 |
| Derivatives (Note 10) | 548,596 | 1,096,128 |
| Subordinated debentures (Note 11) | - | 2,143,000 |
| | 96,461,778 | 74,219,655 |
| Unitholders' Equity | | |
| Unitholders' capital (Note 12) | 35,917,619 | 31,186,595 |
| Deficit (Note 12) | (5,877,581) | (7,719,564) |
| | 30,040,038 | 23,467,031 |
| | \$ 126,501,816 | \$ 97,686,686 |

Commitments (Note 18)

Subsequent events (Note 19)

See accompanying notes to the Consolidated Financial Statements.

On behalf of the Board of Trustees


Tracy Graf, Trustee


David Rosenkrantz, Trustee

Consolidated Statements Of Earnings, Comprehensive Income, and Deficit

| Years ended | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Financial Revenue | | |
| Interest revenue | \$ 35,290,051 | \$ 30,480,877 |
| Administration fees | 2,605,396 | 2,149,964 |
| | 37,895,447 | 32,630,841 |
| Financial Expenses | | |
| Interest expense | 4,287,905 | 4,190,830 |
| Financial income before provision for credit losses | 33,607,542 | 28,440,011 |
| Provision for credit losses | 6,580,505 | 13,114,756 |
| Net financial income before operating expenses and income taxes | 27,027,037 | 15,325,255 |
| Operating Expenses | | |
| General and administrative | 9,564,540 | 8,803,418 |
| Gain on derivatives | (547,532) | (887,358) |
| Amortization of equipment | 172,810 | 183,198 |
| | 9,189,818 | 8,099,258 |
| Earnings before income taxes | 17,837,219 | 7,225,997 |
| Income Taxes (Note 13) | | |
| Current | - | - |
| Future (recovery) | (2,827,043) | (115,050) |
| | (2,827,043) | (115,050) |
| Net earnings and comprehensive income | \$ 20,664,262 | \$ 7,341,047 |
| Earnings per fund unit: | | |
| Basic (Note 12) | \$ 0.84 | \$ 0.30 |
| Diluted (Note 12) | \$ 0.84 | \$ 0.30 |
| Deficit, beginning of year | | |
| | \$ (7,719,564) | \$ (9,361,307) |
| Net earnings | 20,664,262 | 7,341,047 |
| Unit distributions on fund unit equity | (4,560,037) | (1,499,078) |
| Cash distributions on fund unit equity | (14,262,242) | (4,200,226) |
| Deficit, end of year | \$ (5,877,581) | \$ (7,719,564) |

See accompanying notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| Years ended | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Increase (decrease) in cash | | |
| Operating activities | | |
| Net earnings | \$ 20,664,262 | \$ 7,341,047 |
| Items not affecting cash: | | |
| Provision for credit losses | 6,580,505 | 13,114,756 |
| Amortization of equipment | 172,810 | 183,198 |
| Amortization of deferred transaction costs | 162,479 | 247,535 |
| Gain on derivatives | (547,532) | (887,358) |
| Future income taxes | (2,827,043) | (115,050) |
| Unit based compensation expense | 44,900 | 4,600 |
| Change in non-cash balances related to operations (Note 17) | 1,819,884 | 1,572,331 |
| Net cash provided by operating activities | 26,070,265 | 21,461,059 |
| Investing activities | | |
| Funds advanced on finance receivables | (79,592,969) | (54,522,337) |
| Principal collection on finance receivables | 51,922,726 | 42,760,615 |
| Change in finance receivable reserves and transaction costs | (6,153,997) | (5,163,151) |
| Purchase of equipment | (151,784) | (99,790) |
| Net cash used in investing activities | (33,976,024) | (17,024,663) |
| Financing activities | | |
| Advances on bank credit facility | 24,739,108 | 7,037,913 |
| Repayments on bank credit facility | - | (6,700,000) |
| Repayments on subordinated debt | (2,143,000) | (157,000) |
| Deferred transaction costs | (179,795) | (25,714) |
| Proceeds on exercise of unit options | 133,332 | - |
| Proceeds on unit purchase financing | - | 51,666 |
| Fund unit issue costs | (9,698) | (4,523) |
| Fund unit cash distribution | (14,262,242) | (4,200,226) |
| Net cash provided by (used in) financing activities | 8,277,705 | (3,997,884) |
| Net increase in cash | 371,946 | 438,512 |
| Cash, beginning of year | 467,674 | 29,162 |
| Cash, end of year | \$ 839,620 | \$ 467,674 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 4,137,756 | \$ 3,943,316 |

See accompanying notes to the Consolidated Financial Statements.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

1. ORGANIZATION OF THE FUND AND DESCRIPTION OF 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, as amended and restated on April 23, 2004. 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 95.62% and is the limited partner of Carfinco Limited Partnership ("CLP") and CAR holds the remaining 4.38% and is the general partner of CLP. CLP 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."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Fund have been prepared by management, in accordance with generally accepted accounting principles in Canada, and reflect the following significant accounting policies:

Basis of presentation

The consolidated financial statements include the accounts of the Fund and all subsidiary entities. All subsidiary entities are wholly owned and all material inter-company balances 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.

Measurement uncertainty and economic dependence

The timely preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets, liabilities, revenues, expenses, and disclosures in these consolidated financial statements and accompanying notes. Significant estimates used in the preparation of these consolidated financial statements include the assessment of the allowance for credit losses including provisions for credit losses, related reserves, assumptions used to fair value financial instruments, estimates and assumptions used in the determination of the deferred dealer obligation, valuation of repossessed vehicles, future income taxes, and the useful lives of equipment.

The Fund utilizes the financial leverage available under the bank credit facility to fund the acquisition of finance receivables. The Fund has been successful in renewing and expanding these facilities in the past, however, if the Fund were unable to renew these facilities, or 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.

Cash

Cash includes cash on hand and balances with banks, net of bank overdrafts. The bank credit facilities and other long-term borrowings are considered to be financing activities.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Finance receivables

Finance receivables are recorded at amortized cost, using the effective interest method, net of transaction costs such as loan origination fees and payment assurance device costs.

The Fund assesses at each balance sheet date whether there is any objective evidence that a finance receivable, or group of finance receivables is impaired. A finance receivable or a group of finance receivables is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset, and that loss event (or events) has an impact on the estimated future cash flows of the finance receivable or group of finance receivables that can be reliably estimated. As a matter of practice, a loan is deemed to be impaired if it is 60 or more days contractually delinquent, or if other indicators have specifically identified the finance receivable as being impaired. This includes reviewing indications that a borrower is experiencing financial difficulty, such as the probability that they will enter bankruptcy or other financial reorganization.

When loans are classified as impaired, the book values of these finance receivables are reduced to their estimated realizable value by totally or partially writing off the finance receivable and/or establishing an allowance for credit losses. Estimated realizable value is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries on amounts previously written off and any increase in the carrying value of the loan are credited to the allowance for credit losses.

Allowance for credit losses and dealer reserve

The management of the Fund establishes and maintains an allowance for credit losses, which it considers adequate to absorb 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 to absorb potential credit losses. The dealer reserve is recorded on certain finance receivables purchased by the Fund at a negotiated price that is less than the original principal amount being financed. Under this program, the dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collection performance of these finance receivables.

The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group after allowances are made for specific impairments. The allowance for credit losses is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, historical industry ratios of write-offs, historical losses incurred on a static pool basis, estimates of the underlying collateral value, and the Fund's current write-off and recovery experience. Static pool loss rates are a measure of long term performance and credit quality of that pool over time by relating a write-off back to its origination date.

Revenue recognition

Interest revenue is recorded on an accrual basis, where interest is earned over the life of the related finance receivable contract. The accrual of interest revenue is suspended on finance receivables classified as impaired.

Fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables and fees charged to the dealer on the origination of finance receivables are recorded as unearned administration fees and are a component of the finance receivables portfolio. These unearned administration fees are recognized into interest revenue using the effective interest method.

Fees charged to the customer during the subsequent servicing of the finance receivables are recognized upon collection of funds as administration fees revenue.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Other assets

The other assets balance includes prepaid expenses, payment assurance device inventory, and assets held for resale. Payment assurance device inventories are GPS and "Starter Interrupt" technologies that the Fund requires to be installed on vehicles financed under certain programs. Payment assurance device inventories are recorded at the lower of cost and net realizable value on an average cost basis and upon activation, are reclassified and accounted for as a transaction cost related to the acquisition of the associated finance receivable. Assets held for resale consist of vehicles that have been repossessed by the Fund and are available for final disposition. These assets are stated at their estimated net realizable value. Net realizable value represents the estimated selling price for the payment assurance devices and repossessed vehicles sold in the ordinary course of business. Costs associated with the repossession, transport and auction preparation on assets held for resale are recognized under general and administrative expenses in the period in which they were incurred.

Equipment

Equipment is recorded at original cost, less accumulated amortization. Equipment is amortized over its estimated useful lives, using the following rates and methods:

| | Method | Rate |
|-------------------------------|-------------------|---------------|
| Furniture and equipment | Declining balance | 20% |
| Computer and office equipment | Declining balance | 30% |
| Leasehold improvements | Straight-line | Term of lease |

Amortization is recorded when equipment is acquired and available for use. Repairs and maintenance, which do not extend the useful life of the equipment, are recognized under general and administrative expenses in the period in which they were incurred. The Fund reviews for impairment of long-lived assets, such as equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds the sum of undiscounted future cash flows from the use and eventual disposition of the asset. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the estimated fair value. Fair value is determined using the discounted future cash flows attributable to the use and eventual disposition of the asset.

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.

Income taxes are accounted for under the asset and liability method. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the substantively enacted tax rates and laws that will be in effect in the years in which those temporary differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Deferred dealer obligation

The Fund purchases certain finance receivables at a negotiated price that is less than the original principal amount being financed. Under this program, the dealer has a vested interest in the performance of these finance receivables, and can receive additional purchase consideration based upon the collection performance of these finance receivables. The deferred dealer obligation represents the estimated additional purchase consideration owed to the dealers, which is composed of the accumulated obligations recorded on the origination of these finance receivables and of charges to interest revenue based upon estimates of the obligation balance.

Earnings per fund unit

Basic earnings per fund unit is computed by dividing net earnings by the weighted average number of fund units outstanding during the reporting period. Diluted earnings per fund unit is computed similar to basic earnings per fund unit, except that the weighted average fund units outstanding are adjusted for the impact of all potential dilutive units outstanding during the reporting period. For unit purchase financing, the treasury stock method is used, whereby the number of additional fund units is calculated by assuming that units held were released, and that the proceeds were used to acquire fund units at the average market price for the year. For unit options, the number of additional units is calculated by assuming that outstanding in-the-money unit options were exercised and the proceeds from such exercises, including any unamortized unit based compensation costs, were used to acquire units of the Fund at the average market price during the reporting period.

Financial Instruments

Classification and measurement

All financial instruments, including derivatives, must initially be recognized at fair value on the balance sheet. The Fund classifies financial instruments into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Subsequent measurement and recognition of changes in fair value of financial instruments depend on the financial instrument's initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses, net of tax, included in other comprehensive income until the instruments are derecognized or impaired, at which time the amounts would be recorded in net earnings. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

The Fund has the following financial assets and liabilities, for which it has selected the following classifications:

| | Classification | Measurement |
|--|-----------------------------|----------------|
| Financial assets: | | |
| Finance receivables | Loans and receivables | Amortized cost |
| Cash | Held-for-trading | Fair value |
| Financial liabilities: | | |
| Bank credit facility | Other financial liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Deferred dealer obligation | Other financial liabilities | Amortized cost |
| Subordinated debentures | Other financial liabilities | Amortized cost |
| Derivatives | Held-for-trading | Fair value |

Transaction costs

Transaction costs are incremental costs that are directly related to the acquisition or issuance of financial assets or liabilities and are accounted for as part of the respective asset or liability's carrying value at inception. The Fund incurs transaction costs primarily through the acquisition of finance receivables and through the issuance of debt under the bank credit facility. Transaction costs relating to finance receivables are added to the initial carrying value of finance receivables on the consolidated balance sheet, and are recognized against interest revenue using the effective interest method over the term of the loan. Transaction costs relating to the renewal of the bank credit facility are recorded against the carrying value of the bank credit facility on the consolidated balance sheet and are amortized over the expected life of the related debt using the effective interest method.

Derivative instruments and hedging activities

The Fund utilizes derivative financial instruments, in the form of interest rate swap agreements, to reduce the impact of fluctuating interest rates on its bank credit facility. These swap agreements require the monthly exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the changes in the cash flows of the derivatives substantially offset the changes in the cash flows of the hedged item, and if the timing of the cash flows is similar. Gains and losses on derivatives that are part of a designated hedging relationship are recognized in other comprehensive income.

The Fund has not designated the interest rate swap agreements as hedges, and they have been classified as "financial assets or financial liabilities held-for-trading." They are measured at fair value at each balance sheet date with gains and losses recognized in net earnings.

Embedded derivatives

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when the economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a freestanding derivative and the combined contract is not classified as held-for-trading or designated at fair value.

The Fund has reviewed all significant contractual arrangements and determined there are no material embedded derivatives that must be separated from the host contract and fair valued.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Unit based compensation expense

The Fund accounts for unit based compensation payments that are settled by the issuance of fund unit equity in accordance with a fair value based method of accounting. Unit based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Fund, together with the amount in contributed surplus associated with the exercised options, are credited to fund unit equity.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

The following standards have been issued, but not yet adopted by the Fund.

Convergence with International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Fund will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information.

The Fund initiated a conversion plan from Canadian GAAP to IFRS during the fourth quarter of 2008. At that time, the Fund developed a project team led by its Chief Financial Officer and other members of its finance group. As of December 31, 2010, the Fund has completed high-level assessments of the major differences between Canadian GAAP and IFRS that are relevant to the Fund along with preliminary position papers on accounting policy choices and has commenced evaluations of the impacts on financial reporting of these differences on the consolidated financial statements. However, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section carries forward existing Canadian guidance for preparing consolidated financial statements other than non-controlling interests. This section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Fund is currently evaluating the impact of adopting this standard on its consolidated financial statements. An entity adopting this section also adopts CICA Handbook Section 1582, Business Combinations, and CICA Handbook Section 1602, Non-Controlling Interests.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standard. This section establishes the standards for accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date and that non-controlling interests will be measured at fair value at the date of acquisition. This standard is equivalent to International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011 and earlier adoption is permitted.

Non-Controlling Interests

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

4. FINANCE RECEIVABLES

Finance receivables consist of conditional sales contracts, which have terms of 12 to 60 months with fixed rates of interest. A vehicle collateralizes each individual finance receivable.

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

| | December 31, 2010 | Average Stated Interest Rate | December 31, 2009 | Average Stated Interest Rate |
|--|----------------------|---------------------------------|----------------------|---------------------------------|
| 2010 | | | \$ 56,935,064 | 29.2% |
| 2011 | \$ 71,350,829 | 29.3% | 52,409,014 | 29.3% |
| 2012 | 65,621,727 | 29.4% | 43,629,495 | 29.4% |
| 2013 | 50,552,473 | 29.4% | 21,386,003 | 29.4% |
| 2014 | 25,676,457 | 29.4% | 2,043,337 | 29.3% |
| 2015 | 4,244,816 | 29.2% | - | - |
| Gross finance receivables | 217,446,302 | | 176,402,913 | |
| Unearned interest income | (76,616,255) | | (62,611,986) | |
| Principal balance of finance receivables | 140,830,047 | | 113,790,927 | |
| Unearned administration fees | (3,488,738) | | (2,442,323) | |
| Accrued interest | 2,137,098 | | 1,873,699 | |
| Finance receivables | \$ 139,478,407 | | \$ 113,222,303 | |

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, write-offs and deferments. Accordingly, the maturities of finance receivables shown in the table above are not to be regarded as a forecast of future cash collections.

The impaired loans and the related allowance for specific credit losses are as follows:

| | December 31, 2010 | December 31, 2009 |
|--------------------|----------------------|----------------------|
| Impaired loans | \$ 6,058,100 | \$ 6,195,900 |
| Specific allowance | (4,265,600) | (4,657,100) |
| Carrying amounts | \$ 1,792,500 | \$ 1,538,800 |

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

5. ALLOWANCE FOR CREDIT LOSSES

The change in the allowance for credit losses during the periods presented is as follows:

| | December 31, 2010 | December 31, 2009 |
|-------------------------------|----------------------|----------------------|
| Allowance, beginning of year | \$ 12,400,000 | \$ 12,190,000 |
| Provision for credit losses | 6,580,505 | 13,114,756 |
| Write-offs | (9,370,491) | (14,798,830) |
| Recoveries | 2,039,986 | 1,894,074 |
| Allowance, end of year | \$ 11,650,000 | \$ 12,400,000 |

A summary of the general and specific components of the allowance for credit losses is as follows:

| | December 31, 2010 | % of Finance Receivables | December 31, 2009 | % of Finance Receivables |
|--|----------------------|-----------------------------|----------------------|-----------------------------|
| Allowance for credit losses – general | \$ 10,139,400 | 7.3% | \$ 10,579,200 | 9.4% |
| Allowance for credit losses – specific | 1,510,600 | 1.1% | 1,820,800 | 1.6% |
| | \$ 11,650,000 | 8.4% | \$ 12,400,000 | 11.0% |

6. DEALER RESERVE

The change in the dealer reserve during the periods presented is as follows:

| | December 31, 2010 | December 31, 2009 |
|-----------------------------|----------------------|----------------------|
| Reserve, beginning of year | \$ 5,237,091 | \$ 2,454,715 |
| Reserve on new volume | 12,747,244 | 10,986,707 |
| Write-offs | (12,312,000) | (8,918,130) |
| Recoveries | 1,182,022 | 713,799 |
| Reserve, end of year | \$ 6,854,357 | \$ 5,237,091 |

A summary of the general and specific components of the dealer reserve is as follows:

| | December 31, 2010 | % of Finance Receivables | December 31, 2009 | % of Finance Receivables |
|---------------------------|----------------------|-----------------------------|----------------------|-----------------------------|
| Dealer reserve – general | \$ 4,099,357 | 2.9% | \$ 2,400,791 | 2.1% |
| Dealer reserve – specific | 2,755,000 | 2.0% | 2,836,300 | 2.5% |
| | \$ 6,854,357 | 4.9% | \$ 5,237,091 | 4.6% |

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

7. EQUIPMENT

| December 31, 2010 | Cost | Accumulated Amortization | Net Book Value |
|-------------------------------|-------------------|-----------------------------|-------------------|
| Computer and office equipment | \$ 460,742 | \$ 291,448 | \$ 169,294 |
| Furniture and equipment | 245,934 | 135,772 | 110,162 |
| Leasehold improvements | 164,964 | 92,013 | 72,951 |
| | <u>\$ 871,640</u> | <u>\$ 519,233</u> | <u>\$ 352,407</u> |

| December 31, 2009 | Cost | Accumulated Amortization | Net Book Value |
|-------------------------------|-------------------|-----------------------------|-------------------|
| Computer and office equipment | \$ 583,861 | \$ 370,210 | \$ 213,651 |
| Furniture and equipment | 272,271 | 162,970 | 109,301 |
| Leasehold improvements | 85,227 | 34,746 | 50,481 |
| | <u>\$ 941,359</u> | <u>\$ 567,926</u> | <u>\$ 373,433</u> |

8. BANK CREDIT FACILITY

The following table presents components of the outstanding bank credit facility:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Bankers' acceptance equivalent loans: | | |
| Interest rate of 3.73%, maturing on January 19, 2010 | \$ - | \$ 65,000,000 |
| Interest rate of 4.54%, maturing on February 14, 2011 | 85,000,000 | - |
| Prime rate loan | 8,309,766 | 3,570,658 |
| Unamortized deferred transaction costs | (149,829) | (132,513) |
| | <u>\$ 93,159,937</u> | <u>\$ 68,438,145</u> |

Interest expense for the year ended December 31, 2010 includes \$162,479 (2009 - \$247,535) of amortization on deferred transaction costs.

Terms and Security

The bank credit facility is a demand loan, which is the lesser at any time of: a) \$105,000,000 (2009 - \$85,000,000) 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 1.75% (2009 - 1.75%). The Fund also has the option to lock a portion of the outstanding loan balance, for a period of up to 180 days, in bankers' acceptance equivalent loans, which bear interest at the bankers' acceptance rate available at the inception of the equivalent loan, plus 3.25% (2009 - 3.25%). A stand-by fee of 0.375% (2009 - 0.25%) per annum applies to the unused portion of the facility and is calculated, then applied to the outstanding bank credit facility balance, on a monthly basis. The stated maturity date of the credit facility is June 30, 2013 (2009 - December 15, 2010).

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 December 31, 2010 and December 31, 2009.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

9. DEFERRED DEALER OBLIGATION

The change in the deferred dealer obligation during the periods presented is as follows:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Deferred dealer obligation, beginning of year | \$ 1,847,863 | \$ 1,604,385 |
| Deferred dealer obligation on new volume | 708,377 | 1,390,000 |
| Advances to dealer | (701,673) | (1,146,522) |
| Deferred dealer obligation, end of year | \$ 1,854,567 | \$ 1,847,863 |

10. DERIVATIVES

On August 23, 2007, the Fund entered into two interest rate swap agreements with a combined notional amount of \$20,000,000. The first agreement had a notional amount of \$10,000,000, a fixed bankers' acceptance rate of 4.92% and a three-year term that ended on August 23, 2010. The second agreement has a notional amount of \$10,000,000, a fixed bankers' acceptance rate of 4.99% and a five-year term ending on August 23, 2012.

The outstanding interest rate swap agreement has been classified as a "held-for-trading financial instrument," and is measured at fair value with all gains and losses recorded through net earnings. The Fund enters into interest rate swaps to lock the interest rate on a portion of its debt for longer periods and does not hold any derivative financial instruments for trading or speculation purposes.

During the year ended December 31, 2010, a gain of \$547,532 (2009 - \$887,358) was recorded, and the fair value of the interest rate swap at December 31, 2010 was a liability of \$548,596 (2009 - \$1,096,128).

11. SUBORDINATED DEBENTURES

| | December 31, 2010 | December 31, 2009 |
|-------------------------|----------------------|----------------------|
| Subordinated debentures | \$ - | \$ 2,143,000 |

Interest expense for the year ended December 31, 2010 includes \$98,610 (2009 - \$310,834) of interest on subordinated debentures.

On April 30, 2010, the Fund repaid the outstanding principal balance and accrued interest on the stated maturity date of the subordinated debentures. These debentures were unsecured, bore interest at 14% per annum with the interest payable monthly in arrears.

Notes To The Consolidated Financial Statements
December 31, 2010 and 2009

12. UNITHOLDERS' EQUITY

Unitholders' Capital

Unitholders' capital consists of the following components:

| | December 31, 2010 | December 31, 2009 |
|---------------------|----------------------|----------------------|
| Fund unit equity | \$ 35,291,357 | \$ 30,566,633 |
| Contributed surplus | 626,262 | 619,962 |
| | <u>\$ 35,917,619</u> | <u>\$ 31,186,595</u> |

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:

| | Number | December 31, 2010 | Number | December 31, 2009 |
|---|-------------------|----------------------|-------------------|----------------------|
| Fund unit equity, beginning of year | 23,933,527 | \$ 30,566,633 | 23,322,566 | \$ 28,968,101 |
| Unit purchase repayment ¹ | - | - | 16,680 | 51,666 |
| Fund units cancelled | - | - | (5,350) | - |
| Fund unit issue costs, net of future income taxes | - | (7,245) | - | 47,788 |
| Exercised employee unit options | 66,666 | 133,332 | - | - |
| Transfer from contributed surplus for unit options exercised | - | 38,600 | - | - |
| Fund units issued on fund unit distribution | 611,703 | 4,560,037 | 599,631 | 1,499,078 |
| Fund unit equity, end of year | <u>24,611,896</u> | <u>\$ 35,291,357</u> | <u>23,933,527</u> | <u>\$ 30,566,633</u> |

- (1) The Fund entered into unit loan agreements on March 31, 2006 with four individuals who are employees of the Fund. The loan agreements bore interest at the prescribed interest rate, as set by the Canada Revenue Agency, and were repaid in full on March 31, 2009.

Contributed surplus

The change in contributed surplus during the period is as follows:

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Contributed surplus, beginning of year | \$ 619,962 | \$ 615,362 |
| Unit options exercised | (38,600) | - |
| Unit based compensation expense | 44,900 | 4,600 |
| Contributed surplus, end of year | <u>\$ 626,262</u> | <u>\$ 619,962</u> |

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Unit based compensation

On November 30, 2009, the Fund announced that the Board of Trustees approved a one-time issuance of unit options to certain employees of the Fund. Each unit option issued is exercisable to acquire one trust unit of the Fund at a price of \$2.00 per unit vesting over three years, expiring on November 13, 2012. One-third of the options issued vested immediately, with the remaining options issued vesting at a rate of one-third on the two subsequent award date anniversaries. The Fund does not currently have a unit based compensation program for its employees.

The fair value of the unit options was estimated at the grant date using the Black-Scholes option-pricing model, with the following weighted average assumptions:

| | |
|---------------------|-----------|
| Risk-free rate | 1.33% |
| Expected life | 3.0 years |
| Expected volatility | 76.8% |
| Dividend yield | 10.1% |

The continuity of the Fund's outstanding and exercisable unit options is as follows:

| | December 31, 2010 | | December 31, 2009 | |
|---------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
| | Unit Options | Weighted Average Exercise Price | Unit Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 100,000 | \$ 2.00 | - | \$ - |
| Granted | - | - | 100,000 | 2.00 |
| Exercised | (66,666) | 2.00 | - | - |
| Outstanding, end of year | 33,334 | \$ 2.00 | 100,000 | \$ 2.00 |
| Exercisable, end of year | - | \$ - | 33,333 | \$ 2.00 |

The following table summarizes information about options outstanding and exercisable at December 31, 2010 and 2009:

| December 31, 2010 | | Options Outstanding | | Options Exercisable | |
|----------------------|--------|---------------------------|---------------------------------------|---------------------|---------------------------------------|
| Exercise Price Range | Number | Remaining Life (Years) | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| \$2.00 | 33,334 | 1.87 | \$ 2.00 | - | \$ - |

| December 31, 2009 | | Options Outstanding | | Options Exercisable | |
|----------------------|---------|---------------------------|---------------------------------------|---------------------|---------------------------------------|
| Exercise Price Range | Number | Remaining Life (Years) | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| \$2.00 | 100,000 | 2.87 | \$ 2.00 | 33,333 | \$ 2.00 |

For the year ended December 31, 2010, \$44,900 of unit based compensation expense was included in general and administrative expenses (2009 - \$4,600).

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Deficit

Unitholders' deficit consists of the following components:

| | December 31, 2010 | December 31, 2009 |
|--|-----------------------|-----------------------|
| Accumulated net earnings | \$ 43,864,512 | \$ 23,200,250 |
| Accumulated unit distributions on fund unit equity | (9,740,210) | (5,180,173) |
| Accumulated cash distributions on fund unit equity | (40,001,883) | (25,739,641) |
| | <u>\$ (5,877,581)</u> | <u>\$ (7,719,564)</u> |

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 (Canada)*, to the unitholders of the Fund. If the Fund does not pay cash distributions for the total income of the Fund, determined in accordance with the *Income Tax Act (Canada)*, the remaining income of the Fund is distributed through additional Trust Units having a value equal to the cash shortfall.

As at December 31, 2010, the Fund had \$18,822,279 (2009 - \$5,699,304) in taxable income, of which \$14,262,242 (2009 - \$4,200,226) was distributed in cash, and the remaining \$4,560,037 (2009 - \$1,499,078) was distributed through the issuance of additional Trust Units to the unitholders. The distribution was based on the weighted average closing trading price of the Trust Units during the 10 business days immediately preceding the record date of December 20, 2010 (2009 - December 20, 2009), which was \$7.454 (2009 - \$2.499), and a distribution value of \$0.190 (2009 - \$0.0641) per unit.

Accumulated Cash Distributions to Unitholders'

The Fund's policy is to make distributions to unitholders of its available cash, consistent with good business practices considering requirements for capital expenditures, working capital, and other reserves considered advisable by the Trustees of the Fund. All such distributions are discretionary. Cash distributions, if any, are normally payable by the Fund on a monthly basis to unitholders of record on the 20th business day of each month. Distributions are paid on the last business day of the month.

Distributions on units of record during the years ended December 31, 2010 and 2009 are summarized as follows:

| Record Date | Payment Date | Cash Distribution per Unit | Total Cash Distribution |
|---|--------------------|-------------------------------|----------------------------|
| January 20, 2010 | January 29, 2010 | \$ 0.015 | \$ 359,003 |
| February 19, 2010 | February 26, 2010 | 0.020 | 478,671 |
| March 19, 2010 | March 31, 2010 | 0.060 | 1,436,012 |
| April 20, 2010 | April 30, 2010 | 0.020 | 478,671 |
| May 20, 2010 | May 31, 2010 | 0.020 | 479,337 |
| June 18, 2010 | June 30, 2010 | 0.120 | 2,876,023 |
| July 20, 2010 | July 30, 2010 | 0.020 | 479,337 |
| August 20, 2010 | August 31, 2010 | 0.020 | 479,337 |
| September 20, 2010 | September 30, 2010 | 0.120 | 2,876,023 |
| October 20, 2010 | October 29, 2010 | 0.020 | 479,337 |
| November 19, 2010 | November 30, 2010 | 0.020 | 480,004 |
| December 20, 2010 | December 31, 2010 | 0.140 | 3,360,487 |
| Total cash distributions for 2010 | | 0.595 | 14,262,242 |
| August 20, 2009 | August 31, 2009 | 0.015 | 350,008 |
| September 18, 2009 | September 30, 2009 | 0.015 | 350,008 |
| October 20, 2009 | October 30, 2009 | 0.015 | 350,008 |
| November 20, 2009 | November 30, 2009 | 0.015 | 350,008 |
| December 18, 2009 | December 31, 2009 | 0.120 | 2,800,194 |
| Total cash distributions for 2009 | | 0.180 | 4,200,226 |
| Accumulated cash distributions to unitholders for 2009 and 2010 | | <u>\$ 0.775</u> | <u>\$ 18,462,468</u> |

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Earnings per fund unit

The following table sets forth the computation of basic and diluted earnings per fund unit:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Basic: | | |
| Net earnings | \$ 20,664,262 | \$ 7,341,047 |
| Weighted average number of fund units outstanding | 24,570,709 | 24,544,019 |
| Basic earnings per fund unit | \$ 0.84 | \$ 0.30 |
| Diluted: | | |
| Net earnings | \$ 20,664,262 | \$ 7,341,047 |
| Weighted average number of fund units outstanding | 24,570,709 | 24,544,019 |
| Dilutive effect of unit options ¹ | 35,667 | - |
| Diluted weighted average number of fund units outstanding | 24,606,376 | 24,544,019 |
| Diluted earnings per fund unit | \$ 0.84 | \$ 0.30 |

(1) In computing diluted earnings per share for the year ended December 31, 2009, there were no unit options included in the diluted number of units, as the effect would be anti-dilutive.

13. INCOME TAXES

Tax Fairness Plan

In June 2007, the Senate passed the Federal Government's budget implementation bill, which included the taxation on publicly traded income trusts and limited partnerships (Specified Investment Flow-Through Entities or "SIFT"), including Carfinco Income Fund, effective January 1, 2011. As such, the Fund has reviewed all temporary differences that were previously not recorded as future income tax assets or liabilities at the Fund level.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Income Tax Rate Reconciliation

Under the terms of the Deed of Trust, all or virtually all of the taxable income will be allocated to unitholders. In 2010 and 2009, the Fund allocated all of its taxable income to unitholders, and accordingly, no current provision for income taxes was recorded at the Fund level.

The following is a reconciliation of income tax expense, calculated at the Canadian combined federal and provincial tax statutory rates, for each of the periods presented:

| | December 31, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Earnings before income taxes | \$ 17,837,219 | \$ 7,225,997 |
| Canadian statutory rates (federal and provincial) | 31.0% | 29.0% |
| Expected provision for income taxes | \$ 5,529,538 | \$ 2,095,539 |
| Increase (decrease) related to: | | |
| Changes in federal and provincial income tax rates | (38,496) | (5,346) |
| Impact of previously unrecognized balances ¹ | (2,647,475) | - |
| Amounts attributed to unitholders | (5,576,714) | (2,092,755) |
| Expenses not deductible for tax and other | 32,462 | 79,178 |
| Valuation allowances | (126,358) | (274,323) |
| Reorganization of inter-company debt | - | 82,657 |
| Total provision for income tax expense (recovery) | \$ (2,827,043) | \$ (115,050) |

- (1) In 2007, the *Income Tax Act (Canada)* was amended to impose on Canadian public income trusts an entity-level tax, at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and to prevent such trusts from deducting trust distributions when calculating taxable income. These amendments become effective for the Fund on January 1, 2011. The tax recovery relates to the realization of previously unrecognized timing differences that existed between the financial reporting and tax basis of some of the Fund's assets and liabilities. These future income tax assets and liabilities were not previously recognized as the temporary timing differences were set to reverse prior to the Fund becoming a taxable entity.

The income tax provision, including current and future income tax assets and liabilities, require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to the Fund. Therefore, it is possible that the value of the Fund's income tax assets and liabilities could change in the future.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

Components of Future Income Taxes

The Fund and the Fund's subsidiary entities, have tax pools that impact the allocation of taxable income and that exceed the carrying value of assets and liabilities. The tax pools are composed of the following:

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Allowance for credit losses | \$ 11,191,339 | \$ 9,462,854 |
| Equipment | 61,323 | 38,423 |
| Transaction costs | (1,390,874) | (1,349,340) |
| Derivatives | 548,596 | 1,096,128 |
| Unit issue costs | 194,509 | 493,382 |
| Tax loss carry-forwards | 54,844 | 777 |
| Total tax values in excess of carrying values | \$ 10,659,737 | \$ 9,742,224 |

The recognition of future income tax assets or liabilities are recorded only for temporary differences that impact the Fund's taxable subsidiary, Carfinco Inc., or for temporary differences that are expected to reverse after the date that the taxation changes of Canadian public income trusts take effect, being January 1, 2011. For the year ended December 31, 2010, a future income tax recovery of \$2,647,475 was recorded related to the realization of temporary timing differences attributable to the Fund, which were previously unrecognized. These future income tax assets and liabilities were not previously recognized as the temporary timing differences were set to reverse prior to the Fund becoming a taxable entity.

The tax effects that give rise to significant portions of future income tax assets and liabilities are presented below:

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Future income tax assets: | | |
| Allowance for credit losses | \$ 3,152,982 | \$ 116,052 |
| Equipment | 15,950 | 10,088 |
| Derivatives | 150,590 | 131,598 |
| Unit issue costs | 54,658 | 52,311 |
| Tax loss carry-forwards | 14,534 | 218 |
| | 3,388,714 | 310,267 |
| Valuation allowance | - | (126,358) |
| Total future income tax assets | 3,388,714 | 183,909 |
| Future income tax liabilities: | | |
| Transaction costs | (391,857) | (16,548) |
| Total future income tax liabilities | (391,857) | (16,548) |
| Net future income tax assets | \$ 2,996,857 | \$ 167,361 |

In assessing whether the future tax assets are realizable, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon projections for future taxable income, management has provided for a valuation allowance of \$nil (2009 - \$126,358). The amount of the future tax assets considered realizable, however, could be reduced in the near-term if estimates of future taxable income during the carry-forward period are reduced.

At December 31, 2010, loss carry-forwards of \$54,844 are available to reduce taxable income of the Fund's incorporated subsidiary, Carfinco Inc. These losses expire in the following years: 2027 - \$777, 2030 - \$54,067.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

14. RELATED PARTY TRANSACTIONS

All related party transactions are provided in the normal course of business at exchange amounts agreed upon by the related parties. Related party transactions include transactions with parties that are related by equity investment, parties related by common Trustees and transactions with other companies owned or controlled by Officers or Trustees of the Fund, or family members of Trustees or Officers of the Fund.

Patica Securities Limited

The Fund has an agreement with Patica Securities Limited for services provided on an ongoing basis. These services include general strategic advice, operational and financial oversight and review, advice on financial structure, advice on senior and/or subordinated debt and equity structure, communication with stakeholders and other general consulting services. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003, and pursuant to this agreement, Carfinco LP incurs a fixed monthly fee of \$12,500, and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables.

During the year ended December 31, 2010, payments of \$378,000 (2009 - \$388,598) were made to Patica Securities Limited and at December 31, 2010, there was \$31,500 (2009 - \$31,500) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees of the Fund.

Subordinated Debentures

The following table presents subordinated debentures transactions with related parties:

| | December 31, 2010 | December 31, 2009 |
|---|----------------------|----------------------|
| Subordinated debentures issued to related parties | \$ - | \$ 743,000 |

Included in interest expense for the year ended December 31, 2010 is \$38,473 (2009 - \$114,544) of interest paid to related parties during the period. On April 30, 2010, the Fund repaid the outstanding principal balance and accrued interest on the stated maturity date of the subordinated debentures.

15. CAPITAL DISCLOSURE

The Fund's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met, and to maximize and protect unitholder value.

The Fund views its capital as a combination of its subordinated debentures, unrealized derivative liability and unitholders' equity balances. In general, the overall capital level of the Fund is evaluated and determined in the context of the Fund's current financial objectives and strategic plans. To fund the acquisition of receivables and grow the finance receivable portfolio, the Fund utilizes the credit facility and when additional capital is required, it is raised through subordinated debenture or unit issuances. Generally, the Fund has maintained a high level of indebtedness in order to maximize returns on unitholders' equity with the Fund historically distributing a high portion of cash flow in lieu of reducing indebtedness. The Fund carries a level of cash on hand, generally in an amount determined for short-term changes in non-cash working capital balances and to fund near term finance receivable acquisitions. The equity component of capital increases or decreases based upon the income of the business less cash distributions paid.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

The calculation of the Fund's capital for the periods presented is as follows:

| | December 31, 2010 | December 31, 2009 |
|-----------------------------|----------------------|----------------------|
| Unitholders' equity | \$ 30,040,038 | \$ 23,467,031 |
| Derivatives | 548,596 | 1,096,128 |
| Subordinated debentures | - | 2,143,000 |
| Total capitalization | \$ 30,588,634 | \$ 26,706,159 |

The Fund's indebtedness is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests at a consolidated level. These covenants include, but are not limited to, a financial leverage ratio, an interest coverage ratio, a loan availability calculation, and a minimum loss reserve requirement. The Fund was in compliance with all covenants during the year. In addition, as at December 31, 2010 and 2009, the Fund was in compliance with the minimum loss reserve requirement, and had not withdrawn funds under the bank credit facility in excess of the amount permitted in accordance with the loan availability calculation. The following financial condition ratios are monitored by the Fund in managing its capital structure:

| Covenants | Requirement | December 31, 2010 | December 31, 2009 |
|--|-------------|----------------------|----------------------|
| Financial leverage ratio ¹ | < 3.50 | 3.14 | 2.66 |
| Interest coverage ratio (quarterly) ² | >=1.50 | 5.46 | 3.41 |

(1) The financial leverage ratio was reduced to 3.50 from 3.75 in the second quarter of 2010.

(2) For the three months ended December 31, 2010 and 2009.

The financial leverage ratio is calculated as total liabilities excluding derivatives, and subordinated debentures divided by total capitalization.

The interest coverage ratio is calculated as adjusted net earnings divided by interest expense for the trailing three months ended. Adjusted net earnings is calculated as earnings before income taxes, plus gain on derivatives, interest expense, and amortization of equipment for the trailing three months ended.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk Management

The Fund is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in interest rates, as well as credit and liquidity risks. Market risk is the loss that results from changes in market factors such as interest rates. To manage the exposure to changes in market risks, the Fund uses various risk management techniques including the use of derivative financial instruments in the form of interest rate swaps. The Fund does not hold any derivative financial instruments for trading or speculation purposes.

The following summarizes the types of market price risks that the Fund is exposed, and the risk management instruments and techniques used to mitigate them. The sensitivities provided below are hypothetical and should not be considered to be predictive of future performance. The nature of the financial risks, and the Fund's strategy for managing these risks has not significantly changed from the prior period.

(a) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows will fluctuate from changes in market interest rates. The bank credit facility bears interest at a floating rate, and as a result, the Fund's borrowing costs on this facility are subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate with changes in market rates. The Fund attempts to mitigate this risk by using bankers' acceptance equivalent loans to lock the interest rate on a portion of its debt for shorter periods and by using interest rate swap agreements to lock the interest rate on a portion of its debt for longer periods.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

As at December 31, 2010, the Fund has entered into the following arrangements to minimize its exposure to changes in floating interest rates:

| | Maturity Date | Notional Amount | Fixed Rate |
|--------------------------------------|-------------------|-----------------|------------|
| Floating to fixed interest rate swap | August 23, 2012 | \$ 10,000,000 | 4.99% |
| Bankers' acceptance equivalent loans | February 14, 2011 | \$ 85,000,000 | 4.54% |

The Fund estimates that a 100 basis point increase (decrease) in interest rates during the year ended December 31, 2010, with all the other variables constant, would result in an decrease (increase) in earnings before income taxes on the bank credit facility of approximately \$810,000 (2009 - \$666,000), and an increase (decrease) in earnings before income taxes of approximately \$164,000 (2009 - \$200,000) for the cash cost of the interest rate swap agreements for the year ended December 31, 2010. For these two items combined, a 100 basis point increase (decrease) in interest rates for the year ended December 31, 2010 would result in a decrease (increase) in earnings before income taxes of approximately \$646,000 (2009 - \$466,000).

The Fund's finance receivables bear interest at a fixed rate, and are not subject to interest rate cash flow risk.

(b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally through the Fund's finance receivables that 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 originates transactions in a relatively high-risk segment of the consumer finance industry and, therefore, write-offs are anticipated.

The Fund manages this risk by securing individual finance receivables with the registration of a security interest/lien against tangible assets. In addition, 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, which it considers adequate to absorb probable credit losses existing within the finance receivable portfolio. The Fund's maximum exposure to credit risk is represented by the carrying amount for finance receivables. The Fund manages credit risk associated with its cash by holding its funds with reputable financial institutions.

Contractual delinquency at each period end was as follows:

| December 31, 2010 | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days plus |
|--------------------------------|----------------|--------------|---------------|---------------|--------------|
| Amount of finance receivables | \$ 128,584,100 | \$ 6,850,400 | \$ 3,183,200 | \$ 860,700 | \$ - |
| Percent of finance receivables | 92.2% | 4.9% | 2.3% | 0.6% | - |
| Amount specifically impaired | \$ 1,445,000 | \$ 590,600 | \$ 1,369,300 | \$ 860,700 | \$ - |
| December 31, 2009 | Current | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 days plus |
| Amount of finance receivables | \$ 100,012,500 | \$ 7,983,700 | \$ 3,530,300 | \$ 1,695,800 | \$ - |
| Percent of finance receivables | 88.3% | 7.1% | 3.1% | 1.5% | - |
| Amount specifically impaired | \$ 1,199,100 | \$ 555,500 | \$ 1,206,700 | \$ 1,695,800 | \$ - |

The Fund's finance receivable portfolio is composed of a large number of homogeneous consumer loans, and as such, no individual customer constitutes a significant portion of the finance receivable portfolio.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not generate sufficient cash or cash equivalents in a timely and cost-effective manner to satisfy financial liabilities as they come due. The Fund manages liquidity risk through management of its capital structure and financial leverage as outlined in Note 15 to these consolidated financial statements. The Fund also manages liquidity risk by continuously monitoring actual and projected cash flows to ensure that there is sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Fund renewed the bank credit facility during the second quarter of 2010 for a three-year term ending June 30, 2013 (2009 – December 15, 2010). In addition to the renewal, the credit facility was increased to \$105 million from \$85 million and as at December 31, 2010, the Fund had un-drawn and committed bank borrowing facilities of \$11,690,233 (2009 - \$16,429,342). The Fund has been successful in renewing and expanding these facilities in the past, however, if the Fund were unable to renew these facilities, or 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. Management believes that internally generated cash flows supplemented by borrowings under the bank credit facility and the issuance of subordinated debentures, if necessary, will be sufficient to cover the Fund's normal operating and capital expenditures.

The contractual payments and maturities of significant financial liabilities at December 31, 2010 and 2009 are as follows:

| December 31, 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---------------|------------|------------|------------|---------------|
| Bank credit facility ¹ | \$ 93,309,766 | \$ - | \$ - | \$ - | \$ 93,309,766 |
| Accounts payable and accruals | 898,678 | - | - | - | 898,678 |
| Deferred dealer obligation ² | 844,057 | 605,735 | 367,413 | 129,091 | 1,946,297 |
| Derivatives ³ | 355,380 | 214,923 | - | - | 570,303 |
| | \$ 95,407,881 | \$ 820,658 | \$ 367,413 | \$ 129,091 | \$ 96,725,044 |

| December 31, 2009 | 2010 | 2011 | 2012 | 2013 | Total |
|---|---------------|------------|------------|------------|---------------|
| Bank credit facility ¹ | \$ 68,570,658 | \$ - | \$ - | \$ - | \$ 68,570,658 |
| Accounts payable and accruals | 694,519 | - | - | - | 694,519 |
| Deferred dealer obligation ² | 835,515 | 599,605 | 363,695 | 127,785 | 1,926,600 |
| Derivatives ³ | 742,609 | 380,736 | 176,096 | - | 1,299,441 |
| Subordinated debentures ⁴ | 2,241,637 | - | - | - | 2,241,637 |
| | \$ 73,084,938 | \$ 980,341 | \$ 539,791 | \$ 127,785 | \$ 74,732,855 |

- (1) The bank credit facility is a demand loan with a stated maturity date of June 30, 2013 (2009 – December 15, 2010).
- (2) The deferred dealer obligation represents the Fund's estimated obligation of additional amounts that will be owed to dealers on certain finance receivables purchased at a negotiated price that is less than the original principal amount being financed. Under this program, the dealer can receive additional purchase consideration based upon the collection performance of these finance receivables.

Figures presented represent the Fund's best estimate of the undiscounted future cash flows that will be payable to dealers based upon the current collection performance on these finance receivables. These cash flows vary depending on a number of variables including prepayment rates, write-offs and deferrals, and as such, actual cash flows may differ materially from the amounts presented.

- (3) Derivatives represent the estimated contractual payments on the Fund's interest rate swap agreements based upon the Banker's Acceptance Canadian Dealer Offered Rate yield curve as at the reporting date.
- (4) Included in the contractual maturities is \$98,637 of interest payments on subordinated debentures.

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Fair Value

a) Determination of fair value

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities.
- Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar, but not identical, assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Financial instruments classified within Level 3 of the fair value hierarchy are initially fair valued at their transaction price, which is considered the best estimate of fair value. After initial measurement, the fair value of Level 3 assets and liabilities is determined using valuation models, discounted cash flow methodologies, or similar techniques.

In practice, when determining the fair value of financial assets and liabilities, management of the Fund uses available market quotations when an active market exists. When there is no active market for an instrument, fair values are determined using valuation techniques, such as discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, which utilize observable market inputs such as interest rate yield curves, and observable discount rates for time value. For certain financial instruments, fair values may be determined in whole or in part from valuation techniques using non-observable market inputs. Management validates that the estimates of fair value are reasonable using a process of obtaining multiple quotes of external market prices and inputs, consistent application of valuation models over a period of time, and through the implementation of controls and procedures over the valuation process. The valuations are also validated by past experience and through the actual cash settlement of contracts.

Methods and assumptions followed to calculate and disclose fair values are inherently judgmental. Accordingly, fair values do not necessarily reflect amounts that would be received or paid in the case of immediate settlement of these instruments. The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts.

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

- Finance receivables – net is calculated by discounting estimated future cash flows of the portfolio at a range of rates from the inherent stated interest rates, as currently there is no organized market for valuing the finance receivable portfolio;
- Cash, bank credit facility, and accounts payable and accrued liabilities are assumed to approximate their carrying values, due to their short-term nature;
- Deferred dealer obligation was calculated by discounting the estimated future cash flows of a certain portfolio of finance receivables at risk-free investment rates required to support the future liability. The estimated cash flows will vary depending on a number of variables including prepayment rates, write-offs and deferrals; and
- Derivative financial instruments were calculated using market prices that the Fund would pay or receive to settle the related arrangements.

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

| | December 31, 2010 | | December 31, 2009 | | | | | | | | | | | | | | | | | | | | |
|---|-----------------------|----------------|-----------------------|---------------|--|-----------------------|--|-----------------------|--|---------------|------------|---------------|------------|-------------|-------|----------------|-------|---------------|-------------|-------|-------------|-------|------------|
| | Book Value | Fair Value | Book Value | Fair Value | | | | | | | | | | | | | | | | | | | |
| Financial assets: | | | | | | | | | | | | | | | | | | | | | | | |
| Finance receivables – net ¹ | \$ 120,974,050 | \$ (A) | \$ 95,585,212 | \$ (B) | | | | | | | | | | | | | | | | | | | |
| Cash | 839,620 | 839,620 | 467,674 | 467,674 | | | | | | | | | | | | | | | | | | | |
| Financial liabilities: | | | | | | | | | | | | | | | | | | | | | | | |
| Bank credit facility | \$ 93,159,937 | \$ 93,309,766 | \$ 68,438,145 | \$ 68,570,658 | | | | | | | | | | | | | | | | | | | |
| Accounts payable and accrued liabilities | 898,678 | 898,678 | 694,519 | 694,519 | | | | | | | | | | | | | | | | | | | |
| Deferred dealer obligation | 1,854,567 | 1,854,567 | 1,847,863 | 1,847,863 | | | | | | | | | | | | | | | | | | | |
| Subordinated debentures | - | - | 2,143,000 | 2,143,000 | | | | | | | | | | | | | | | | | | | |
| Derivatives | 548,596 | 548,596 | 1,096,128 | 1,096,128 | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">(A) December 31, 2010</th> <th colspan="2">(B) December 31, 2009</th> </tr> <tr> <th>Discount Rate</th> <th>Fair Value</th> <th>Discount Rate</th> <th>Fair Value</th> </tr> </thead> <tbody> <tr> <td>Upper value</td> <td>26.4%</td> <td>\$ 121,030,400</td> <td>27.2%</td> <td>\$ 95,661,100</td> </tr> <tr> <td>Lower value</td> <td>32.4%</td> <td>114,770,200</td> <td>31.2%</td> <td>92,162,800</td> </tr> </tbody> </table> | | | | | | (A) December 31, 2010 | | (B) December 31, 2009 | | Discount Rate | Fair Value | Discount Rate | Fair Value | Upper value | 26.4% | \$ 121,030,400 | 27.2% | \$ 95,661,100 | Lower value | 32.4% | 114,770,200 | 31.2% | 92,162,800 |
| | (A) December 31, 2010 | | (B) December 31, 2009 | | | | | | | | | | | | | | | | | | | | |
| | Discount Rate | Fair Value | Discount Rate | Fair Value | | | | | | | | | | | | | | | | | | | |
| Upper value | 26.4% | \$ 121,030,400 | 27.2% | \$ 95,661,100 | | | | | | | | | | | | | | | | | | | |
| Lower value | 32.4% | 114,770,200 | 31.2% | 92,162,800 | | | | | | | | | | | | | | | | | | | |

- (1) In assessing the fair value of the Fund's finance receivables, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. As a result of the number of uncertainties involved, the fair value of finance receivables has been discounted utilizing a range of effective interest rates reflecting the uncertainty involved in the timing, and ultimate amount of cash collections.

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The following table presents as at December 31, 2010 and 2009, the level within the fair value hierarchy for each financial asset and liability measured at fair value:

| December 31, 2010 | Level 1 | Level 2 | Level 3 | Total |
|------------------------|------------|--------------|---------|--------------|
| Financial assets: | | | | |
| Cash | \$ 839,620 | \$ - | \$ - | \$ 839,620 |
| Financial liabilities: | | | | |
| Derivatives | \$ - | \$ 548,596 | \$ - | \$ 548,596 |
| December 31, 2009 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Cash | \$ 467,674 | \$ - | \$ - | \$ 467,674 |
| Financial liabilities: | | | | |
| Derivatives | \$ - | \$ 1,096,128 | \$ - | \$ 1,096,128 |

During the years ended December 31, 2010 and 2009, no financial instruments measured at fair value were classified as Level 3 financial instruments or were moved in or out of their level. The Fund has not made changes to its valuation techniques over the prior year.

17. CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

| | December 31, 2010 | December 31, 2009 |
|--|----------------------|----------------------|
| Accrued interest | \$ (263,399) | \$ 40,629 |
| Deferred dealer obligation | 2,125,000 | 1,800,000 |
| Accounts payable and accrued liabilities | 204,159 | 191,530 |
| Other assets | (245,876) | (459,828) |
| | \$ 1,819,884 | \$ 1,572,331 |

18. COMMITMENTS

The Fund is committed to a long term operating lease for building space up to December 31, 2011. The minimum annual lease payments required over the upcoming year is \$393,000.

Notes To The Consolidated Financial Statements

December 31, 2010 and 2009

19. SUBSEQUENT EVENTS

Reorganization of debt

On January 1, 2011, the Fund reorganized debt owed by CLP to the Fund. The debt owed by CLP to the Fund was assigned to CHT by the Fund. CHT in turn issued a note to the Fund for the full value of the debt. The resulting debt between CLP and CHT was settled by CLP through the issuance of additional units in CLP to CHT. As a result of the issuance of additional partnership units, CHT's holdings in CLP increase from 95.62% to 96.10%, and CAR's holdings of CLP decreased from 4.38% to 3.90%.

Change in tax status

On January 1, 2011, amendments made to the *Income Tax Act (Canada)* that impose on Canadian public income trusts an entity-level tax at a rate approximately equal to the rate applicable to income earned by a Canadian public corporation, and prevent such trusts from deducting trust distributions when calculating taxable income, became effective for the Fund.

The payment of such taxes will reduce the cash flow of the Fund, thereby reducing the amount available for distributions to Unitholders. The amendment also recharacterizes distributions as eligible dividends received from a taxable Canadian corporation compared to the current characterization of distributions to Unitholders primarily as ordinary income.

Evaluation of strategic alternatives

On January 12, 2011, the Fund announced that it had retained FBR Capital Markets & Co. ("FBR") to assist its Board of Trustees in identifying, examining and considering a range of strategic alternatives available to the Fund, with a view to maximizing Unitholder value. These alternatives include, but are not limited to, the potential sale of all or a majority of the assets or units of the Fund.

The Fund will be continuing with all of its previously planned business objectives throughout the review of strategic alternatives and there can be no assurance that the review will result in any specific transaction.

Unitholder Information

CARFINCO INCOME FUND

Whitemud Business Park
4245 – 97 Street, Suite 300
Edmonton, AB T6E 5Y7

LISTING

The Toronto Stock Exchange
Symbol: CFN.UN

TRUSTEES

Tracy A. Graf
President and CEO, Carfinco
Edmonton, AB

David Prussky
Director, Patica Securities Limited
Toronto, ON

David Rosenkrantz
Director, Patica Securities Limited
Toronto, ON

J. Daryl MacLellan
President, CIT Canada
Toronto, ON

Brent Channell
Managing Director, Spartan
Fund Management Inc.
Toronto, ON

Maurice Kagan
President, Sparkle Solutions
Income Fund
Toronto, ON

Simon Serruya
Owner and COO,
Yogen Früz International Inc.
Toronto, ON

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
Roper Road Branch
5340 – 75 Street
Edmonton, AB T6E 6S4

AUDITORS

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

BANK CREDIT FACILITY

Bank of America, N.A.
Simcoe Place
200 Front Street West, Suite 2700
Toronto, ON M5V 3L2

Wells Fargo Financial
Corporation Canada
Co-lender

Bank of Montreal
Co-lender

SOLICITOR

Bryan & Company LLP
2600 Manulife Place
10180 – 101 Street
Edmonton, AB T5J 3Y2

REGISTRAR AND TRANSFER AGENT

Equity Transfer & Trust Company
200 University Avenue, Suite 400
Toronto, ON M5H 4H1

INVESTOR RELATIONS

Tracy Graf
Telephone: 1-888-486-4356

Jeff Walker / Dave Burwell
The Howard Group Inc.
Telephone: 1-888-221-0915

