TO OUR UNITHOLDERS

We are pleased to report $6.0 million in earnings before income taxes for the third quarter of 2011, making it the 10th consecutive quarter of record pre-tax earnings for the Fund.

With current and deferred income tax expenses totaling $1.6 million, net earnings for the quarter were $4.3 million, a 0.8% increase from the second quarter of 2011. During the third quarter of 2011 the Fund achieved an annualized, after-tax return on unitholder's equity ("ROE") of 52.6%.

As announced earlier this year, the Fund was awarded a servicing contract to administer a substantial portfolio of Canadian automotive loans owned by a US entity. In preparation to service this portfolio, the Fund incurred additional operating expenses during the quarter without having the benefit of additional revenues for servicing the portfolio, other than the receipt of a start-up fee. These operating expenses include such items as opening an office in Laval, Quebec and hiring and training over 20 new employees. Carfinco commenced servicing the portfolio on October 1, 2011, and the fourth quarter of 2011 will be the first quarter of recognizing servicing fee income from this portfolio. Servicing this portfolio will generate additional revenue for the Fund over the next 24 to 36 months as the loans mature. The service center in Quebec will also benefit the Fund in terms of managing its own portfolio as it builds its presence in the province of Quebec and continues to increase its finance receivables in the other provinces in Eastern Canada.

Similar to the previous two quarters, the third quarter of 2011 is now reported under International Financial Reporting Standards ("IFRS"). Certain comparative figures for 2010 differ from previously reported figures presented under Canadian GAAP in order to conform to IFRS and be comparable to Q3 2011 figures.

HIGHLIGHTS

- Pre-tax earnings for the quarter were $6.0 million, up 21.5% from the $4.9 million for the third quarter of 2010;
- Earnings per fund unit for the quarter was 18 cents;
- Unitholder's equity increased 7.4% to $34.0 million during the quarter;
- Loan originations for the quarter were $31.7 million, a 22.7% increase from the $25.8 million for the third quarter of 2010;
- Principal balance of finance receivables was $160.3 million, increasing 5.1% during the quarter and 13.6% for the first nine months of 2011, putting us close to our target of 20% growth for the year;
- 31+ days delinquent accounts for the quarter were 2.7%, similar to the 2.6% for the second quarter of 2011 and a decrease from 3.0% for the third quarter of 2010.

For the first nine months of 2011 the Fund has distributed $5.4 million in cash to its Unitholders, which equates to 42.5% of net earnings. In retaining 57.5% of net earnings the Fund's book value per unit has increased 27.8% during the first nine months of 2011.

Revenues of $15.2 million for the third quarter of 2011 represent an increase of 20.7% from the $12.6 million for the third quarter of 2010 and a 5.7% increase from the $14.4 million for the second quarter of 2011.

Pre-tax earnings for the quarter were $6.0 million, up 21.5% from the $4.9 million for the third quarter of 2010 and 3.2% from the $5.8 million for the second quarter of 2011.

Loan originations for the third quarter of 2011 were $31.7 million, a 22.7% increase from the $25.8 million for the third quarter of 2010 and a 13.3% increase from the $28.0 million for the second quarter of 2011.

SIGNIFICANT EVENTS

On October 17, 2011, the Board of Trustees of the Fund unanimously approved a proposed transaction providing for the conversion of the Fund from an income trust to a corporation. On November 21, 2011 there will be a special meeting of Unitholders of Carfinco Income Fund where Unitholders will vote on a plan of arrangement (the "Arrangement") that would result in the conversion of the Fund on a tax-deferred basis to a corporate entity expected to be effective January, 2012. The new public corporation would be named Carfinco Financial Group Inc. and will trade on the TSX. If the Arrangement is approved, the Board of Directors of Carfinco Financial Group Inc. intend to implement a dividend policy, effective January 2012, of 3.0 cents per month per share which is the same as the Fund's current cash distribution policy of 3.0 cents per month per unit held.

Thank you to our Unitholders for their continued support,

Tracy Graf,
Chief Executive Officer

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 annual consolidated financial statements for the year ended December 31, 2010 presented under Canadian generally accepted accounting principles ("GAAP"), and the Fund's unaudited interim financial statements for the period ended September 30, 2011 presented under International Financial Reporting Standards ("IFRS") and the accompanying notes to those consolidated financial statements. In addition, they should be read in conjunction with the disclosures concerning the transition from GAAP to IFRS included in Note 19 – Transition to International Financial Reporting Standards in the Fund's unaudited interim consolidated financial statements for the period ended March 31, 2011.

The consolidated financial statements have been prepared in accordance with IFRS and International Accounting Standard ("IAS") 34 – Interim Financial Reporting, and are reported in Canadian dollars. For all periods up to and including December 31, 2010, the Fund prepared the consolidated financial statements in accordance with GAAP. With the adoption of IFRS, and the transition date of January 1, 2010, all comparative information for 2010 has been prepared in accordance with IFRS accounting policies. The 2009 comparative information contained within this MD&A is prepared under GAAP and has not been re-presented on an IFRS basis, as is allowed by IFRS 1, the standard related to the first time adoption of IFRS.

OVERVIEW

Carfinco Income Fund is an unincorporated open-end mutual fund trust existing under the laws of Alberta 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, existing under the laws of Alberta, and 5.2% of Carfinco Inc., a subsidiary, existing under the laws of Alberta. Carfinco Holdings Trust holds the remaining 94.8% ownership of Carfinco Inc. Carfinco Holdings Trust holds a 25.0% interest in Carfinco Limited Partnership, and Carfinco Inc. holds the remaining 75.0% 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 cash flows from operating activities, supplemented by the issuance of subordinated debt and fund unit equity where necessary. 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 November 8, 2011. Certain statements contained in this interim report constitute "forward-looking statements." When used in this interim 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-IFRS MEASURES

Throughout this MD&A, management uses the following terms and ratios not found in IFRS and which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers, and therefore require definition. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

Distributable cash

Distributable cash is a non-IFRS measure used by the Fund as an indication of cash generated from operations that is available to reinvest in the business, repay debt, or for distribution to unitholders. The Fund uses it as an indicator of financial strength and liquidity. Distributable cash is calculated by taking cash provided by (used in) operating activities, excluding funds advanced on finance receivables, and principal collections on finance receivables, and subtracting purchases of equipment and any amounts retained for operations. Amounts retained reflect amounts to fund future capital requirements, income tax obligations, or other amounts as considered advisable by the Board of Trustees. Please refer to the section entitled “Cash distributions” under this MD&A for additional information and reconciliation with IFRS.

Payout ratio

The payout ratio is a key measure used by investors to assess the Fund’s performance and to provide an indication of the sustainability of cash distributions to unitholders. The payout ratio is calculated as cash distributions during the period divided by distributable cash.

Financial leverage ratio and total capitalization

The financial leverage ratio is defined as total liabilities excluding derivative financial instruments and subordinated debentures divided by total capitalization. Total capitalization is defined as the total of unitholders' equity, derivative financial instruments, 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. Average portfolio yield provides an indication of the effective yield generated on the finance receivable portfolio before deductions for financial, operating, and income tax expenses.

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 provides an indication of the customer spread, that is, the difference between interest and fee income generated by the Fund on lending to customers and the interest expense it pays to borrow funds, after subtracting provisions for credit losses.

Average cost of borrowing

Average cost of borrowing is equal to interest expense divided by the average bank credit facility and subordinated debenture balance outstanding for the period. The average cost of borrowing provides an indication of the average interest rate that the Fund pays on debt financing.

Annualized loss rate

The annualized loss rate is equal to net write-offs recorded through the allowance for credit losses divided by average finance receivables for the period, presented on an annualized basis. The annualized loss rate is used by the Fund to assess the percentage of the finance receivable portfolio that incurred losses during the period. In addition, the Fund utilizes the annualized loss rate as an alternative measure to the provision for credit losses as it excludes the effect of provisions for (reductions in) the allowance for credit losses during the period which may not coincide with the timing of when write-offs and recoveries are actually incurred.

Operating expense ratio on portfolio assets

The operating expense ratio on portfolio assets is calculated as total operating expenses divided by average finance receivables. The operating expense ratio is used by the Fund to assess the efficiency of the management of the Fund's loan portfolio.

Pre-tax return on portfolio assets

Pre-tax return on portfolio assets is calculated as earnings before income taxes divided by average finance receivables. The pre-tax return on portfolio assets provides an indication of the average return on the Fund's loan portfolio excluding the impact of income taxes.

Pre-tax return on adjusted unitholders' equity

Pre-tax return on adjusted unitholders' equity is equal to earnings before income taxes divided by average adjusted unitholders' equity during the period. The pre-tax return on adjusted unitholders' equity provides an indication of the Fund's return on unitholders' equity while eliminating income tax expenses and recoveries recognized through the consolidated statements of earnings.

Adjusted unitholders' equity is equal to total unitholders' equity subtracting deferred income tax assets and adding income taxes payable. The Fund utilizes adjusted unitholders' equity to measure the amount of unitholders' equity at the end of each period after removing the non-cash effect of income taxes recorded on the statement of financial position.

Return on invested capital

Return on invested capital provides investors with an indication of the return generated by the Fund available to all investors, independent of financial leverage. Return on invested capital is often used by investors to assess the ability of the Fund to create value for investors by generating returns in excess of the Fund's weighted average cost of capital. Return on invested capital is calculated as operating cash flow divided by average invested capital during the period.

Operating cash flow is calculated as cash provided by (used in) operating activities excluding interest paid, income taxes paid, funds advanced on finance receivables, and principal collection on finance receivables, and after subtracting purchases of equipment. Operating cash flow is a measurement utilized by investors as it eliminates significant non-cash items and estimates made by management of the Fund through the consolidated statements of earnings and provides an indication of the pre-tax cash flows generated by the Fund's core operations.

Invested capital represents the cumulative amount the Fund has invested in its operations from both debt and equity financing. Invested capital is useful for investors as it measures total investment in the Fund's operations independent of the source of financing and eliminates significant non-cash, and non-operating items included in the consolidated statements of financial position. Invested capital is calculated as total assets excluding the allowance for credit losses and deferred income tax assets, and subtracts non-interest bearing liabilities.

RECENT EVENTS

Plan of Arrangement

On October 17, 2011, the Board of Trustees of the Fund approved a proposed transaction providing for the conversion of the Fund from an income trust to a corporation. Pursuant to a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta), Unitholders of the Fund will receive, for each unit of the Fund held, one common share of Carfinco Financial Group Inc. ("New Carfinco") on the effective date of the Arrangement. The Arrangement will result in New Carfinco holding the assets and business operations previously held and operated by the Fund and its subsidiaries. All of the members of the Board of Trustees, and the senior officers of the Fund, will continue as the directors and officers of New Carfinco. Following completion of the Arrangement, the former Unitholders of the Fund will hold all outstanding common shares of New Carfinco.

Since the Arrangement does not contemplate a change of control for accounting purposes, the financial statements of New Carfinco will be the continuation of the Fund's. As a result of the Arrangement, the consolidated financial statements of New Carfinco will reflect the assets and liabilities of the Fund at their respective carrying amounts.

Completion of the transactions as contemplated in the Arrangement are subject to certain conditions, including regulatory approval and approval of not less than 66 2/3% of the votes cast at a special meeting of the Fund's Unitholders scheduled for November 21, 2011. It is anticipated that the Arrangement would become effective on or about January 1, 2012.

SELECTED FINANCIAL INFORMATION AND FINANCIAL RATIOS

The following table summarizes key financial data to be read in conjunction with the unaudited interim financial statements of the Fund as at and for the three and nine months ended September 30, 2011. Such financial statements are prepared in accordance with IFRS and are reported in Canadian dollars.

As at and for the three months ended, (in $000's for stated values, except ratios and per fund unit amounts)		September 30, 2011		December 31, 2010		September 30, 2010
Total revenue	$	15,188	$	12,906	$	12,580
Earnings before taxes		5,953		5,464		4,899
Net earnings		4,320		6,219		4,986
per fund unit, basic and diluted	$	0.18	$	0.25	$	0.20
Total assets		139,436		123,242		116,003
Finance receivables		143,196		125,228		119,463
Loan originations		31,706		24,532		25,834
Cash distributions		1,969		4,320		3,835
per fund unit	$	0.080	$	0.180	$	0.160
Ratios						
Financial leverage ratio		3.06:1		3.52:1		3.55:1
Allowance for credit losses as a percentage of finance receivables		4.5%		4.3%		4.8%
Annualized loss rate		13.3%		14.3%		16.5%
Return on unitholders' equity [1]		52.6%		96.6%		82.3%
Pre-tax return on adjusted unitholders' equity [1]		67.4%		87.5%		82.1%
Return on portfolio assets [1]		12.4%		20.3%		17.2%
Pre-tax return on portfolio assets [1]		17.1%		17.9%		16.9%
Return on invested capital [1]		20.2%		20.8%		22.1%
Payout ratio		45.5%		83.4%		73.0%
Book value per fund unit	$	1.38	$	1.08	$	1.04

(1) Presented on an annualized basis.

Highlights

The Fund achieved net earnings of $4,320,106 ($0.18 per fund unit – basic and diluted) for the three months ended September 30, 2011 compared to $4,985,905 ($0.20 per fund unit – basic and diluted) in the comparative fiscal 2010 quarter. For the nine months ended September 30, 2011, the Fund had net earnings of $12,728,133 ($0.52 per fund unit – basic and diluted) compared to $13,007,517 ($0.53 per fund unit – basic and diluted) for the nine months ended September 30, 2010. The net earnings for the quarter represented an increase of $36,195 or 0.8% from $4,283,911 recognized in the second quarter of 2011, and a decline of $665,799 or 13.4% from the third quarter of fiscal 2010. The decline over the prior year quarter was primarily due to the change in tax status of the Fund that became effective on January 1, 2011 and due to reductions of $650,000 in the allowance for credit losses in the third quarter of fiscal 2010 in comparison with increases in the allowance for credit losses of $291,900 in the current quarter. Excluding the effects of current and deferred taxes, and changes in the allowance for credit losses during the quarters, the third quarter of 2011 had earnings of $6,244,614 compared to earnings of $4,249,047 in the third quarter of fiscal 2010 representing an increase of 47.0%. As the Fund works to achieve growth in the finance receivable portfolio of 20% for the fiscal 2011 year, increases in the allowance for credit losses were necessary to absorb potential credit losses arising on new volume originated during the quarter. In assessing the impairment of finance receivables, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown and, as a result, changes in estimates may cause future assessments to be significantly different than current assessments and may require further increases or decreases in the allowance for credit losses. Please refer to the section entitled "Provision for credit losses" under this MD&A for additional information.

The three months ended September 30, 2011 saw an increase in the annualized loss rate to 13.3% from 12.4% in the second quarter of 2011 and a decline from 16.5% for the three months ended September 30, 2010. This annualized loss rate is line with management's expectations for the quarter. The Fund continues to closely monitor contractually delinquencies and has not made material modifications to its credit criteria since the changes that were made in the fourth quarter of 2008.

Management continued to be successful in managing contractual delinquencies with amounts over 30 days outstanding declining over the quarter representing 2.7% of the finance receivables portfolio as at September 30, 2011 compared to 2.6% as at June 30, 2011, 3.1% as at December 31, 2010 and 5.0% as at January 1, 2010. Current accounts represented 93.2% of the portfolio as at September 30, 2011, compared to 91.9% as at December 31, 2010 and 87.7% as at January 1, 2010. In addition, no amounts continued to remain contractually delinquent greater than 90 days.

Finance receivables were $143,196,071 at the end of the quarter, up 14.4% from $125,228,265 as at December 31, 2010 and up 19.9% from $119,462,626 at September 30, 2010. Loan originations were $31,706,447 for the quarter representing an increase of $3,722,756 from $27,983,691 for the three months ended June 30, 2011. Funds advanced on finance receivables for the three months ended September 30, 2011 were $26,415,149 compared to $23,097,507 and $21,134,466 for the three months ended June 30, 2011 and September 30, 2010 respectively. Typically the Fund's loan originations are impacted in the first and fourth quarter of each fiscal year due to seasonality surrounding the holiday seasons. Overall, loan originations for the quarter were in line with management's expectations.

Income taxes

Prior to January 1, 2011, taxation on publicly traded income trusts and limited partnerships (Specified Investment Flow-Through Entities or "SIFT"), including Carfinco Income Fund, were not subject to an entity-level tax if all of the taxable income of the Fund was allocated to unitholders. In 2007, the *Income Tax Act*

(*Canada*) was amended to impose on Canadian public income trusts an entity-level tax on earnings that the SIFT trust distributes to its unitholders, at a rate applicable to income earned by a Canadian public corporation, and to prevent such trusts from deducting trust distributions when calculating taxable income. Undistributed earnings of the SIFT continue to be taxable at the full tax rate normally applicable to undistributed trust income. This rate is equal to the highest marginal personal income tax rate in the Province the Fund is determined to be a resident.

Prior to March 17, 2011, under the Fund's Deed of Trust, all, or virtually all, of the taxable income of the Fund was required to be allocated to unitholders each fiscal year, and accordingly, no current provision for income taxes was recorded at the Fund level. On March 17, 2011, the Fund's Deed of Trust was amended to remove the obligation of the Fund to distribute all of its taxable income. Under these circumstances, prior to the date of the amendment, deferred tax assets and liabilities attributable to the Fund are measured at the SIFT tax rate applicable to distributed profits, and subsequently are measured at the tax rate applicable to undistributed profits. Current income tax assets and liabilities are measured at the tax rate applicable dependent upon whether the taxable earnings were distributed or undistributed to unitholders. Future expectations of distributions are not taken into consideration. As a result, the income tax benefit related to the distribution of income to unitholders is recognized in the period when the liability to pay a distribution occurs.

Effective June 30, 2011, Carfinco Holdings Trust transferred a 71.1% limited partnership interest in Carfinco Limited Partnership to Carfinco Inc., in accordance with the tax deferral provisions of subsection 85(1) of the *Income Tax Act (Canada)*. As payment for the transfer, Carfinco Inc. issued a 94.8% ownership interest to Carfinco Holdings Trust. As a result of the transaction, effective June 30, 2011, Carfinco Holdings Trust's ownership interest in Carfinco Limited Partnership has been reduced to 25.0%, down from 96.1%, with Carfinco Inc. holding the remaining 75.0% interest.

For the three months ended September 30, 2011, a current and deferred income tax expense of $1,632,608 was recognized compared to $1,485,406 for the three months ended June 30, 2011 and a recovery of $86,858 for the three months ended September 30, 2010. The significant increase in the tax expense over the prior year quarter is reflective of the change in tax status previously discussed as the Fund no longer receives a full reduction in its effective income tax rate related to its trust distributions. During the quarter, a reduction in the Fund's deferred tax assets was recognized in the amount of $382,070. The decline in deferred tax asset balance is primarily due to the changes in the Fund's deductible temporary differences reversing in future periods relating to the Fund's allowance for credit losses.

Cash distributions and payout ratio

For the three months ended, cash distributions totaled $1,968,952 ($0.080 per fund unit) compared to cash distributions of $1,845,892 ($0.075 per fund unit) for the three months ended June 30, 2011 and $3,834,697 ($0.160 per fund unit) for the three months ended September 30, 2010. For the third quarter of fiscal 2011, the payout ratio increased to 45.5%, up from 39.9% in the second quarter of 2011 but decreased from 73.0% in the third quarter of 2010. On September 8, 2011, the Fund announced an increase in its monthly cash distribution to $0.030 per fund unit, up from $0.025 per fund unit.

In fiscal 2010, the Board of Trustees approved that to the extent that the Fund generated taxable income in excess of the monthly cash distributions in any quarter, that all or a portion of the excess taxable income would be distributed in the form of quarterly special distributions. In addition, a special distribution was declared in the fourth quarter of 2010 consisting of cash and units to allocate the remainder of the Fund's taxable income to unitholders. Subsequent to January 1, 2011, the Fund announced, that as a result of the recent change in taxation of the Fund, that a portion of the Fund's net earnings would be retained to fund future growth in the finance receivable portfolio, as such distributions will no longer be deductible or provide a substantial benefit to the Fund for income tax purposes. This change in distribution policy accounts for the decline in the payout ratio in the current quarter when compared to fiscal 2010.

Please refer to the section entitled "Cash distributions" under this MD&A for additional information on the Fund's distribution policy, and a calculation of distributable cash and the payout ratio.

RESULTS OF OPERATIONS

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

For the three months ended, (in $000's for stated values, except per unit amounts)	September 30, 2011	December 31, 2010	September 30, 2010
Financial revenue	$ 15,188	$ 12,906	$ 12,580
Financial expenses			
Provision for credit losses	4,947	4,033	4,132
Interest expense	1,294	1,179	1,123
Gain on derivative financial instruments	(44)	(125)	(114)
Net financial income before operating expenses and taxes	8,991	7,819	7,439
Operating expenses	3,038	2,356	2,540
Tax expense (recovery)	1,633	(756)	(87)
Net earnings and comprehensive income	$ 4,320	$ 6,219	$ 4,986
per fund unit, basic and diluted	$ 0.18	$ 0.25	$ 0.20

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 fee income on these finance receivables. For the three months ended September 30, 2011, revenues were $15,188,106 compared to $14,370,536 and $12,579,655 for the three months ended June 30, 2011, and September 30, 2010 respectively. These increases represent growth of 5.7% over the prior quarter, and 20.7% over the prior year's quarter. 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 fee income.

The following table summarizes financial revenues by category:

For the three months ended, (in $000's, except ratios)	September 30, 2011	December 31, 2010	September 30, 2010
Interest revenue	$ 14,243	$ 12,187	$ 11,939
Fee income	945	719	641
	$ 15,188	$ 12,906	$ 12,580
Ratios			
Average portfolio yield [1]	43.6%	42.2%	43.4%

(1) Presented on an annualized basis.

Interest revenue reflects the amortization of financial assets measured at amortized cost under the effective interest method net of provisions recognized under the deferred dealer obligation. The effective interest method discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument, fee income charged to the customer and dealer on origination of the financial asset, purchase premiums or discounts on acquisition, net of any transaction costs that are directly attributable to the financial instrument. The effective interest method does not take into consideration future credit losses as part of the estimation of future cash flows. Provisions recognized under the deferred dealer obligation reflect the estimated amount of future purchase consideration that will be owed by Carfinco to dealerships under certain finance programs whereby a dealership is entitled to participate in the financial performance of finance receivables originated from their dealership.

For the three months ended September 30, 2011, interest revenues increased by $562,195 or 4.1% over the prior quarter, and by $2,304,164 or 19.3% over the prior year comparative. For the nine months ended September 30, 2011, interest revenues increased by $7,221,212 or 21.6% compared to the nine months ended September 30, 2010. The increases were directly related to growth in the finance receivable balance during the respective periods. The portfolio grew by 5.5% over the prior quarter, and by 19.9% over the prior year quarter.

Fee income is earned from fees charged to the customer subsequent to the origination of the finance receivable that are related to providing subsequent servicing of the financial asset, and from fees earned on servicing a loan portfolio on behalf of a third party. With respect to fees charged to the customer, these fees are expected to fluctuate based upon customer collection rates and delinquencies. For servicing fees, the Fund earns a rate per each active loan in the servicing portfolio. During the three months ended September 30, 2011, fee income increased to $944,961 from $689,586 for the three months ended June 30, 2011 and increased from $640,674 for the three months ended September 30, 2010. For the nine months ended September 30, 2011, fee income was $2,392,565, up 26.9% from $1,886,053 for the nine months ended September 30, 2010.

Included in fee income for the three and nine months ended September 30, 2011, were fees earned related to servicing consumer automotive loans on behalf of a US Equity Fund, which the Fund previously announced in a press release dated June 29, 2011. The amount payable to the Fund during the quarter was a start-up fee under the servicing agreement. Other than the start-up fee, no amounts were payable to the Fund under the servicing agreement during the third quarter. Effective October 1, 2011, the Fund began servicing the loans under the agreement, and as a result, additional revenues will be earned commencing in the fourth quarter of 2011. Excluding the start-up fee, increases in fee income occurred as a result of growth in the finance receivable portfolio that resulted in additional collection activity.

The average portfolio yield for the period was 43.6% remaining stable with the 43.4% in each of the three months ended June 30, 2011 and September 30, 2010.

Financial Expenses

The following table summarizes financial expenses:

For the three months ended, (in $000's for stated values, except ratios)	September 30, 2011	December 31, 2010	September 30, 2010
Provision for credit losses	$ 4,947	$ 4,033	$ 4,132
Interest expense	1,294	1,179	1,123
Gain on derivative financial instruments	(44)	(125)	(114)
	$ 6,197	$ 5,087	$ 5,141
Net financial income before operating expenses and income taxes	$ 8,991	$ 7,819	$ 7,439
Ratios			
Net financial margin	59.2%	60.6%	59.1%
Average cost of borrowing [1]	5.3%	5.2%	5.3%
Annualized loss rate	13.3%	14.3%	16.5%

(1) Presented on an annualized basis.

Provision for credit losses

The provision for credit losses increased $310,766 or 6.7% to $4,946,714 for the period up from $4,635,948 for the three months ended June 30, 2011. In comparison to the prior year comparative, the provision for credit losses increased $814,946 or 19.7%, from $4,131,768. For the nine months ended September 30, 2011, the provision for credit losses increased $1,322,897 or 10.5% over the prior year comparative. In the current quarter, the provision for credit losses included a provision to increase the allowance for credit losses by $291,900 compared to reductions in the allowance for credit losses in the third quarter of 2010 of $650,000 and increases of $525,000 in the second quarter of 2011. Excluding the impact of these adjustments, the provision for credit losses for the quarter increased by $543,866 over the three months ended June 30, 2011, and decreased by $126,954 from the three months ended September 30, 2010 despite overall growth in the portfolio. For the nine months ended September 30, 2011, excluding the impact of adjustments to the allowance for credit losses, the provision for credit losses declined 8.7% or $1,221,403. Overall these trends are represented in the calculation of the annualized loss rate in the table above which is equal to write-offs, net of recoveries, during the period recognized through the allowance for credit losses divided by average finance receivables over the same period, presented on an annualized basis. Since the first quarter of fiscal 2010, the annualized loss rate has declined reaching as low as 12.4% in the second quarter of 2011, down from the 18.8% at the end of the first quarter of 2010, and slightly increasing to 13.4% in the current 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, which may not coincide with the timing of when write-offs and recoveries are actually incurred.

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, and 2011, management wrote-off all loans in contractual arrears greater than 90 days.

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. At the end of fiscal 2009, management remained cautious on expectations regarding Canada's economic recovery and allowed for extended periods of above average contractual delinquencies and loan losses given uncertainty in the economic environment at that time. This coincided with the increased level of loan losses that the Fund had faced in fiscal 2008, and 2009. Throughout 2010, in assessing the allowance for credit losses, management began adjusting expectations on delinquencies and loan losses to lower levels given the improvement in the overall economic environment, and the reduction in write-offs and delinquencies that the Fund was attaining in the finance receivable portfolio. At this time, management feels that the annualized loss rates for fiscal 2011, along with the fourth quarter of fiscal 2010 approximate normal operating conditions and has developed expectations for the allowance for credit losses at the end of the quarter on those loss assumptions. As the Fund works to achieve growth in the finance receivable portfolio of 20% per annum, increases in the allowance for credit losses will likely be necessary to absorb credit losses arising on new volume. In assessing the impairment of finance receivables, and the adequacy of 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, changes in circumstances and assumptions may lead to assessments that are materially different than current assessments and that may require increases or decreases in the allowance for credit losses.

Interest expense

Interest expense for the three months ended September 30, 2011 increased $38,538 or 3.1% from $1,255,168 for the three months ended June 30, 2011 and increased $171,044 or 15.2% from $1,122,662 for the three months ended September 30, 2010. For the nine months ended September 30, 2011, interest expense increased $582,956 or 18.5% from $3,155,299 to $3,738,255. The increase in interest expense over these periods is primarily due to an overall increase in the average outstanding balance on the Fund's bank credit facility. The average cost of borrowing has remained stable at 5.3% for the three months ended September 30, 2011, which compares to the 5.3% in each of the three months ended June 30, 2011 and September 30, 2010. During the current quarter, the Fund had net advances on the bank credit facility of $3,408,844 compared to net advances of $2,157,224 during the prior quarter and net advances of $6,440,166 in the prior year quarter. Advances under the facility were required during the period to fund growth in the finance receivable portfolio.

Gain on derivative financial instruments

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. For the three months ended September 30, 2011, a gain on derivative financial instruments of $43,914 (nine months ended September 30, 2011 - $184,640) was recorded, and as at September 30, 2011, the fair value of the interest rate swap was a liability of $363,956 (December 31, 2010 - $548,596).

The interest rate swap agreements have been classified as financial liabilities measured at fair value through profit or loss with all changes in fair value 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.

Operating Expenses

The following table summarizes operating expenses:

For the three months ended, (in $000's for stated values, except ratios)	September 30, 2011	December 31, 2010	September 30, 2010
General and administrative	$ 2,989	$ 2,423	$ 2,433
Loss (gain) on unit based payment obligations	2	(109)	64
Depreciation of equipment	47	42	43
	$ 3,038	$ 2,356	$ 2,540
Net earnings before taxes	$ 5,953	$ 5,464	$ 4,899
Ratios			
Operating expense ratio on portfolio assets	8.7%	7.7%	8.8%
Pre-tax return on portfolio assets	17.1%	17.9%	16.9%

As a percentage of portfolio assets, operating expenses increased over the prior quarter equaling 8.7% compared to 8.4%. Over the prior year comparative, this ratio declined down from 8.8%. The increase in this ratio over the prior quarter is primarily due to increases in salary and benefit expenditures as the Fund hired additional staff, and incurred additional lease expenses to accommodate for additional volume related to the servicing portfolio. Management continues to make concerted efforts to improve the Fund's technology infrastructure that may assist in increasing operating effectiveness. The implementation of GPS starter interrupt devices under certain finance programs several years ago has translated into several operating efficiencies as the Fund's customer service and collection departments have been able to administer a larger volume of accounts. This has assisted in minimizing the impact growth in the portfolio has had on the Fund's salary and benefit expenditures in the customer service and collection departments. The Fund continues to look for additional operating efficiencies including finalizing the implementation of a document image system across all departments, and making continued improvements to the Fund's internal reporting systems.

General and administrative

Significant components of the Fund's general and administrative expenses include salaries and benefits, loan administration costs not directly tied to the acquisition of a finance receivable, office and general expenses, and professional and advisory services. For the three months ended September 30, 2011, general and administrative expenses were $2,989,748, an increase of 11.3% from general and administrative expenses of $2,687,090 for the second quarter of 2011, and an increase of $555,942 or 22.8% for the three months ended September 30, 2010. For the nine months ended September 30, 2011, general and administrative expenses increased $1,115,852 or 15.7% to $8,212,501 from $7,096,649 for the nine months ended September 30, 2010. The increase in general and administrative expenses was due to overall expansion in the Fund's operational structure to accommodate growth in the finance receivables portfolio and to accommodate for additional volume related to the servicing portfolio as previously discussed.

Loss on unit based payment obligations

The liability of unit based payment obligations is re-measured at each reporting date with changes in the fair value of the corresponding unit options being recognized in the statement of earnings. For the three months ended September 30, 2011 a loss of $2,115 (June 30, 2011 – $35,860, September 30, 2010 – $63,712) was recognized related to unit-based compensation expense and fair value adjustments. For the nine months ended September 30, 2011, a loss on unit based payment obligations of $39,755 was recognized, compared to a loss of $20,884 for the nine months ended September 30, 2010. The fair value of the unit based payment obligation is calculated utilizing the Black-Scholes Option-Pricing Model, and fluctuations in the fair value of the liability occur as a result of the passage of time, and changes in the underlying value of the Fund's units.

Depreciation of equipment

Depreciation expense increased $1,053 or 2.3% for the three months ended September 30, 2011, up from $45,970 in the prior quarter. In comparison to the third quarter of 2010, depreciation expense increased $4,335 or 10.2%. For the nine months ended, depreciation expense totaled $149,209 in comparison to $130,870 for the prior year comparative. This expense was in line with management's expectations for the quarter and for the nine months ended. Equipment purchases of $118,843 have been made during the year in the normal course of operations.

Income Taxes

As previously discussed, effective January 1, 2011, the taxation of publicly traded income trusts was modified to impose on such trusts an entity-level tax on the earnings that the trust distributes to its unitholders at a rate applicable to income earned by a Canadian public corporation. Undistributed earnings are taxable at the full tax rate normally applicable to undistributed trust income, that is, the rate of the highest marginal personal income tax rate in the Province in which the Fund is determined to be a resident. The amendments also re-characterized distributions as eligible dividends received from a taxable Canadian corporation which provides benefit to Canadian resident investors holding their units in taxable accounts as the previous treatment was to characterize such distributions primarily as ordinary income.

As previously discussed, effective June 30, 2011, Carfinco Holdings Trust transferred a 71.1% limited partnership interest in Carfinco Limited Partnership to Carfinco Inc., in accordance with the tax deferral provisions of subsection 85(1) of the *Income Tax Act (Canada)*. As a result of the transaction, effective June 30, 2011, Carfinco Holdings Trust's ownership interest in Carfinco Limited Partnership has been reduced to 25.0%, down from 96.1%, with Carfinco Inc. holding the remaining 75.0% interest.

For the three months ended September 30, 2011, a current and deferred tax expense of $1,632,608 was recognized compared to $1,485,406 for the three months ended June 30, 2011 and an expense recovery of $86,858 for the three months ended September 30, 2010. For the nine months ended September 30, 2011, current and deferred tax expense was $4,488,624, compared to a recovery of $221,764 for the nine months ended September 30, 2010. The significant increase in the tax expense over the prior year comparatives periods is reflective of the change in tax status of the Fund as the tax benefit related to the distribution of taxable earnings to unitholders was significantly reduced.

On October 17, 2011, the Board of Trustees of the Fund approved a proposed transaction providing for the conversion of the Fund from an income trust to a corporation. Pursuant to a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta), Unitholders of the Fund will receive, for each unit of the Fund held, one common share of Carfinco Financial Group Inc. ("New Carfinco") on the effective date of the Arrangement. The Arrangement will result in New Carfinco holding the assets and business operations previously held and operated by the Fund and its subsidiaries.

Please refer to Note 8 – Income Taxes, and Note 19 – Post-Reporting Date Events in the Fund's unaudited interim consolidated financial statements for the three months and nine ended September 30, 2011 for additional information.

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)	September 30, 2011	December 31, 2010	September 30, 2010
Finance receivables – net	$ 136,786	$ 119,845	$ 113,744
Non-portfolio assets	2,650	3,915	2,259
Total assets	139,436	123,760	116,003
Bank credit facility	98,450	93,160	87,807
Other liabilities	6,970	3,379	3,385
Total liabilities	105,420	96,539	91,192
Unitholders' equity	$ 34,016	$ 26,703	$ 24,811

Assets

Total assets increased by $7,105,184, or 5.4%, to $139,436,184 as at September 30, 2011 from $132,331,000 as at June 30, 2011 and increased by $16,194,658 or 13.1% from $123,241,526 as at December 31, 2010. As at September 30, 2011, non-portfolio assets represented 1.90% (December 31, 2010 – 2.76%) of total assets. The portfolio assets include finance receivables, net of the allowance for credit losses.

Finance receivables

As at (in $000's for stated values, except ratios)	September 30, 2011	December 31, 2010	September 30, 2010
Principal balance of finance receivables	$ 160,303	$ 141,125	$ 134,893
Unamortized fees, discounts, and transaction costs	(19,241)	(18,052)	(17,311)
Accrued interest	2,134	2,155	1,881
Finance receivables	143,196	125,228	119,463
Allowance for credit losses	(6,410)	(5,383)	(5,719)
Finance receivables – net	$ 136,786	$ 119,845	$ 113,744
Ratios			
Allowance for credit losses as a percentage of finance receivables	4.5%	4.3%	4.8%

Finance receivables grew during the third quarter of 2011 by $7,427,433, or 5.5%, to $143,196,071 from $135,768,638 as at June 30, 2011. In comparison to the prior year comparative, finance receivables grew by $23,733,445, or 19.9%, from $119,462,626. Overall, loan growth for the quarter was in line with management's expectations.

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.

Allowance for credit losses

The management of the Fund maintains an allowance for credit losses, which it establishes to provide for impairment of individual, or groups of, loan assets. Individual impairment is assessed by examining contractual delinquency, and an individual borrower's financial condition, such as the identification of a borrower 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. If an asset has no individual objective evidence of impairment it is grouped with financial assets with similar credit risk characteristics which are collectively assessed for impairment on the basis of historical loss experience, adjusted to reflect current conditions, while removing future credit losses that have not been incurred. The amount of the allowance for credit losses is measured as the difference between the carrying amounts of the assets on the consolidated statements of financial position and the present value of the estimated future cash flows of the financial assets, discounted at the financial asset's original effective interest rate.

To manage credit risk related to customer defaults, the Fund performs detailed assessments on the value of the underlying security, the customer's financial condition and ability to service the debt both at loan inception and throughout the term of the loan, in addition to maintaining prudent underwriting methods. Also, Carfinco frequently purchases loans at a negotiated price that is less than the principal amount being financed by the debtor. These purchase discounts enable the Fund to minimize its own losses arising on defaults as it limits the level of the Fund's own invested capital at risk.

The Fund's allowance for credit losses had an increase of $291,900 to $6,410,000 as at September 30, 2011, up from $6,118,100 as at June 30, 2011. In comparison to the prior year comparative, the Fund's allowance for credit losses increased $691,400 from $5,718,600 as at September 30, 2010. As a percentage of finance receivables, the allowance for credit losses remained stable over the quarter ending at 4.5%. The increase in the allowance over the prior quarter is due to overall growth in the finance receivable portfolio. Although the Fund uses various models and methodologies to assess the adequacy of loss reserves, there is no precise method for estimating impairment of financial assets, and the use of different estimates and methodologies could result in significantly different measurements of the allowance of credit losses.

Please refer to the sections entitled "Provision for credit losses" and "Delinquency and losses" contained within this MD&A for additional information.

Delinquency and losses

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

For the three months ended (in $000's)	September 30, 2011	December 31, 2010	September 30, 2010
Allowance for credit losses, beginning of period	$ 6,118	$ 5,719	$ 6,369
Provisions for credit losses	4,947	4,033	4,132
Write-offs	(5,537)	(5,215)	(5,552)
Recoveries	882	846	770
Allowance for credit losses, end of period	$ 6,410	$ 5,383	$ 5,719

The contractual delinquency at each reporting period is as follows:

	September 30, 2011		December 31, 2010		January 1, 2010	
Current	$ 133,490,345	93.2%	$ 115,084,775	91.9%	$ 88,977,772	87.7%
Contractually past due:						
1 to 30 days	5,894,242	4.1%	6,261,413	5.0%	7,374,643	7.3%
31 to 60 days	2,591,292	1.8%	3,005,479	2.4%	3,328,244	3.3%
61 to 90 days	1,220,192	0.9%	876,598	0.7%	1,722,804	1.7%
91+ days	-	0.0%	-	0.0%	-	0.0%
	$ 143,196,071	100.0%	$ 125,228,265	100.0%	$ 101,403,463	100.0%

Liabilities

Total liabilities increased by $4,754,030 or 4.7% to $105,419,856 as at September 30, 2011, from $100,665,826 at June 30, 2011. In addition, total liabilities increased by $14,227,692, or 15.6%, from $91,192,164 as at September 30, 2010. The increase over the prior quarter is primarily due an increase in the income taxes payable balance of $1,250,538 during the period and from increases in the bank credit facility of $3,437,121. The remainder of the increase was due to combined increases of $66,371 in accounts payables and accrued liabilities, the deferred dealer obligation, derivative financial instruments, and unit based payment obligations.

Please refer to the section entitled "Income taxes" contained within this MD&A for additional information on the changes in taxation of the Fund effective January 1, 2011.

Bank credit facility

The Fund executed an Amended and Restated Credit Facility on February 13, 2008, as amended on May 14, 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 $130,000,000 (December 31, 2010 - $105,000,000, January 1, 2010 - $85,000,000), subject to a defined borrowing base and a maximum financial leverage ratio of 3.50:1 (December 31, 2010 – 3.50:1, January 1, 2010 – 3.75:1). The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at September 30, 2011 a total of $98,450,139 (June 30, 2011 - $95,013,018, September 30, 2010 - $87,807,146) was outstanding under the credit facility. The maturity date of the credit facility is June 30, 2013.

Deferred dealer obligation

The deferred dealer obligation represents the estimated additional purchase consideration payable to dealers on certain loans financed at a discount. Under this program, the dealer has a vested interest in the pools of loans originated from their dealership, and can receive additional purchase consideration based upon the collection performance of the loans within their pool. The obligation is measured based on assessing the historical collection data on this program and making management's best estimate of the expenditure that would be required to settle the obligation at the end of the reporting period, discounted at a pre-tax rate that reflects risks specific to the liability, and for which cash flow estimates have not already been adjusted to reflect risk in the variability of outcomes. A range of possible outcomes is assessed and, given the inherent variability of possible outcomes, actual outflows of resources may ultimately differ from current expectations requiring increases or decreases in the deferred dealer obligation.

The deferred dealer obligation increased by $64,065 or 3.4% during the quarter from $1,880,387 at June 30, 2011, and increased by $217,104, or 12.6%, from $1,727,348 as at September 30, 2010. Overall, growth in the underlying finance receivable portfolio, accompanied by improvements in collection performance of the underlying pools resulted in increases in the deferred dealer obligation balance.

Unitholders' Equity

Unitholders' equity increased 7.4% or $2,351,154 from $31,665,174 at June 30, 2011 to $34,016,328 as at September 30, 2011, and increased by 37.1% or $9,205,594 from $24,810,734 at September 30, 2010. The increase over the second quarter of 2011 is due to net earnings of $4,320,106 during the period, which was offset by cash distributions of $1,968,952.

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 September 30, 2011 and November 8, 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 fund unit equity. The Fund's primary use of cash has been the funding of advances on finance receivables, and the financing of working capital and capital expenditures. The Fund manages its capital resources by utilizing the financial leverage available under the credit facility and, when additional capital is required, it is raised through subordinated debenture or unit issuances.

Management believes that the resources available to the Fund, supplemented by the issuance of subordinated debt and/or fund unit equity, if necessary, 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 consolidated statements of financial position. 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 September 30, 2011, the financial leverage was 3.06:1, down from 3.13:1 at June 30, 2011, 3.52:1 at the end of fiscal 2010 and 3.55:1 at September 30, 2010. The banking syndicate has agreed to use GAAP for calculating covenants up to and including December 31, 2010 and will use IFRS for periods commencing on January 1, 2011. Under GAAP, the financial leverage ratio was 3.37:1 and 3.14:1 as at September 30, 2010 and December 31, 2010 respectively, and as a result, the Fund was not in breach of this covenant on those reporting dates. The decline in this ratio over the prior quarter is primarily due to the retention of net earnings that increased unitholders' equity, with a corresponding increase in the Fund's total capitalization.

The Fund's capitalization is as follows:

As at (in $000s for stated values)	September 30, 2011	December 31, 2010	September 30, 2010
Bank credit facility	$ 98,450	$ 93,160	$ 87,807
Accounts payable and accrued liabilities	776	899	865
Income taxes payable	3,769	-	-
Deferred dealer obligation	1,944	1,855	1,727
Unit based payment obligations	117	77	119
Total debt	$ 105,056	$ 95,991	$ 90,518
Unitholders' equity	$ 34,016	$ 26,703	$ 24,811
Derivative financial instruments	364	549	674
Total capitalization	$ 34,380	$ 27,252	$ 25,485
Financial leverage	3.06:1	3.52:1	3.55:1

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:

For the three months ended (in $000's for stated values, except ratios)	September 30, 2011	December 31, 2010	September 30, 2010
Earnings before taxes	$ 5,953	$ 5,464	$ 4,899
Gain on derivative financial instruments	(44)	(125)	(114)
Depreciation of equipment	47	42	43
Interest expense	1,294	1,179	1,123
Interest coverage	$ 7,250	$ 6,560	$ 5,951
Interest coverage ratio	5.60:1	5.56:1	5.30:1

Cash flow and liquidity

Cash flows used in operating activities for the three months ended September 30, 2011 were $1,265,433 compared to $131,160 and $2,805,691 for the three months ended June 30, 2011 and September 30, 2010 respectively. For the nine months ended September 30, 2011, cash provided by operating activities was $109,521 compared to cash flows used in operating activities of $7,003,369 for the prior year comparative. For the three months ended, this represented an increase in funds used in operating activities of $1,134,273 over the prior quarter and a decrease of $1,540,258 over the quarter ended September 30, 2010. Included in cash used in operating activities for the three months ended September 30, 2011 are funds advanced on finance receivables of $26,415,149 (June 30, 2011 - $23,097,507, September 30, 2010 - $21,134,466) and principal collections on finance receivables of $19,499,065 (June 30, 2011 - $17,364,643, September 30, 2010 - $13,074,842). For the nine months ended September 30, 2011, funds advanced on finance receivables were $69,414,061 (September 30, 2010 - $59,081,187), and principal collections on finance receivables were $52,602,963 (September 30, 2010 - $37,816,021). Excluding these changes in finance receivables cash provided by operating activities for the three and nine months ended September 30, 2011 were $5,650,651 (June 30, 2011 - $5,601,704, September 30, 2010 - $5,253,933) and $16,920,619 (September 30, 2010 - $14,261,797) respectively. The increases in cash flows provided by operating activities when excluding the mentioned changes in finance receivables were primarily the result of the higher finance receivable portfolio that resulted in increases in interest receipts over the comparative periods.

Cash flows used in investing activities for the three months ended September 30, 2011 increased to $73,386 from $37,800 for the prior quarter and from $2,058 in the prior year comparative. The entire change is attributed to differences in the amount of purchases of equipment between the quarters.

Cash flows provided by financing activities for the three months ended September 30, 2011 were $1,432,873 compared to $180,058 in the prior quarter, and $2,568,541 in the prior year comparative. As management focuses on growth in the finance receivable portfolio, the Fund has begun retaining a larger portion of its earnings reducing the amount of fund unit cash distributions over the comparative year quarters. In addition, this decline in cash distributions enabled the Fund to place less reliance on funding from the bank credit facility in comparison to prior years. During the third quarter of fiscal 2011 net advances of $3,408,844 were made on the bank credit facility compared to net advances of $9,494,858 in the prior year comparative. The net advances on the bank credit facility in the current quarter were necessary to fund the growth in the finance receivable portfolio.

Debt and contractual repayment obligations

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

	< 1 year	1-3 years	3-5 years	> 5 years	Total
Bank credit facility [1]	$ 98,650,081	$ -	$ -	$ -	$ 98,650,081
Operating leases [2]	232,900	636,600	400,800	50,100	1,320,400
	$ 98,882,981	$ 636,600	$ 400,800	$ 50,100	$ 99,970,481

(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 9 of the Fund's unaudited interim consolidated financial statements.

(2) The Fund is committed to long term operating leases for building space. Amounts presented represent the minimum annual lease payments.

CASH DISTRIBUTIONS

Distribution policy

Prior to January 1, 2011, pursuant to the Deed of Trust of the Fund, the Trustees were required to 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 did 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 was distributed through additional Trust units having a value equal to the cash shortfall.

As a result of the changes to taxation laws previously discussed, it was the opinion of the Trustees that it was no longer appropriate for the Fund to distribute all of its taxable income to unitholders as such distributions generally will no longer be deductible or provide a substantial benefit to the Fund for income tax purposes. Accordingly, subsequent to January 1, 2011, the Trustees amended the Deed of Trust to remove the Fund's intent to fully distribute all of its taxable income to unitholders each fiscal year. The Board of Trustees has the discretion to set the amount and timing of any distribution and regularly reviews its distribution policy taking into consideration requirements for capital expenditures, working capital, and other reserves considered necessary within good business practices or as required under the Fund's bank credit facility covenants. 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.

At this time, the Fund has identified a number of opportunities for loan origination growth including continued expansion into the Province of Quebec, dealer expansion across the country, and the introduction of tiered pricing products that cater to higher credit quality customers within different segments of the non-prime market. As a result, on March 9, 2011 the Board announced that, going forward, a portion of the net earnings of the Fund would be retained to fund future growth in the finance receivable portfolio. The Board believes that the pursuit of these opportunities, while maintaining a high return on invested capital, accompanied by stable and consistent distributions, will maximize long-term value creation for unitholders of the Fund. It is currently the Board's intention to maintain the current monthly cash distribution of $0.030 per fund unit and will examine the appropriateness of issuing special quarterly distributions or adjusting the monthly cash distribution on an ongoing basis.

Distributable cash and payout ratio

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

For the three months ended (in $000's for stated values, except percentages and per unit amounts)	September 30, 2011	December 31, 2010	September 30, 2010
Cash used in operating activities	$ (1,265)	$ (751)	$ (2,806)
Add (deduct):			
Funds advanced on finance receivables	26,415	20,054	21,134
Principal collection on finance receivables	(19,499)	(14,119)	(13,075)
Purchase of equipment	(73)	(1)	(2)
Amounts retained to fund income tax obligations	(1,251)	-	-
Distributable cash	$ 4,327	$ 5,183	$ 5,251
Cash distributions paid during the period	$ 1,969	$ 4,320	$ 3,835
Payout ratio	45.5%	83.4%	73.0%
Distributable cash per weighted average units outstanding	$ 0.176	$ 0.211	$ 0.214
Cash distributions per fund unit	$ 0.080	$ 0.180	$ 0.160
Unit distributions per fund unit	-	0.190	-
Total distributions per fund unit	$ 0.080	$ 0.370	$ 0.160

Distributable cash for the three months ended September 30, 2011 amounted to $4,326,727 or $0.176 per weighted average fund unit, a decrease of $295,234, or 6.40%, from the three months ended June 30, 2011. In comparison to the three months ended September 30, 2010, distributable cash decreased $925,148, or 17.6%. For the nine months ended September 30, 2011, distributable cash amounted to $13,032,830 compared to $14,111,345 for the nine months ended September 30, 2010. Cash distributions during the period were $1,968,952 compared to $1,845,892 and $3,834,697 for the three months ended June 30, 2011 and September 30, 2010 respectively. As previously discussed, the decline in the payout ratio and distributable cash figures over the prior year is due to amendments in the Fund's distribution policy, and changes in the taxation of the Fund that impacted the availability of cash for distribution to unitholders.

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, tax obligations, and future capital requirements.

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. The debt 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 three months and nine months ended September 30, 2011 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
January 20, 2011	January 31, 2011	0.020	492,238
February 18, 2011	February 28, 2011	0.020	492,238
March 18, 2011	March 31, 2011	0.025	615,297
April 20, 2011	April 29, 2011	0.025	615,297
May 20, 2011	May 31, 2011	0.025	615,297
June 20, 2011	June 30, 2011	0.025	615,298
July 20, 2011	July 29, 2011	0.025	615,297
August 19, 2011	August 31, 2011	0.025	615,298
September 20, 2011	September 30, 2011	0.030	738,357
Total cash distributions for 2011		0.220	5,414,617
Accumulated cash distributions to unitholders for 2010 and 2011		$ 0.815	$ 19,676,859

SUMMARY OF QUARTERLY INFORMATION (UNAUDITED)

($000's for stated values, except percentages, and per fund amounts)	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 [1] Q4
Total revenue	$ 15,188	$ 14,371	$ 13,511	$ 12,906	$ 12,580	$ 11,835	$ 10,928	$ 8,562
Net earnings	4,320	4,284	4,124	6,219	4,986	4,702	3,320	2,608
per fund unit, basic and diluted	0.18	0.17	0.17	0.25	0.20	0.19	0.14	0.11
Finance receivables	136,786	129,651	123,768	119,845	113,619	105,874	98,399	113,222
Funds advanced on finance receivables	26,415	23,098	19,901	20,054	21,134	20,572	17,375	14,342
Loan originations	31,706	27,984	24,414	24,532	25,834	25,125	21,539	17,754
Allowance for credit losses [2]	6,410	6,118	5,593	5,383	5,719	6,369	6,869	17,637
as a % of finance receivables [2]	4.5%	4.5%	4.3%	4.3%	4.8%	5.7%	6.5%	15.6%
Bank credit facility	98,450	95,013	92,953	93,160	87,807	81,360	71,936	68,438
Subordinated debt	-	-	-	-	-	-	2,143	2,143
Unitholders' equity	34,016	31,665	29,227	26,703	24,811	23,660	22,792	23,467
Fund units outstanding	24,612	24,612	24,612	24,612	23,967	23,967	23,934	23,934
Basic weighted average fund units	24,612	24,612	24,612	24,595	24,579	24,563	24,545	24,545
Book value per fund unit	$ 1.38	$ 1.29	$ 1.19	$ 1.08	$ 1.04	$ 0.99	$ 0.95	$ 0.96

(1) Comparatives for the 2009 fiscal year are prepared under GAAP, as allowed under IFRS 1 for first time adoption, and have not been re-presented on an IFRS basis. See Note 19 – Transition to International Financial Reporting Standards, in the unaudited interim financial statements as at and for the three months ended March 31, 2011 for additional information on the Fund`s conversion to IFRS.

(2) Comparatives for 2009 include the dealer reserve which has been eliminated upon transition to IFRS.

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 Q2 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 in fiscal 2010 with corresponding increases in net earnings. Commencing in fiscal 2011, overall growth in the finance receivable portfolio has necessitated increases in the allowance for credit losses, with corresponding decreasing in net earnings, despite the fact that the annualized loss rate has continued to improve throughout fiscal 2011 in comparison to the prior year. In addition, effective January 1, 2011, the Fund became a taxable entity which has also resulted in the decline in net earnings in the current fiscal year in comparison to the prior year comparatives.

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 first quarter of 2011 and fourth quarter of 2010, slight declines in loan originations were experienced which can be attributed to lower originations during the holiday seasons. 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. In fiscal 2011, the Board of Trustees made amendments to the Fund's Deed of Trust, as a result of changes in the taxation of the Fund as discussed under the section entitled "Cash distributions" contained within this MD&A. Other than the aforementioned, the Fund's financial results are generally not subject to significant seasonal fluctuations.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are made with reference to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011. A summary of the Fund's significant accounting policies are presented in Note 3 to those consolidated financial statements. Some of the Fund's accounting policies, as required by International Financial Reporting Standards, 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 recognized on the income statement for all financial assets measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument, including prepayment options, fee income charged to the customer and dealer on the origination of all financial assets, and all purchase premiums or discounts, net of any transaction costs that are directly attributable to the financial instrument, but not future credit losses. The application of the method has the effect of recognizing revenue on the financial instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

Once the recorded value of a financial asset, or a group of similar financial assets, has been reduced due to an impairment loss, interest revenue continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This is offset by a corresponding adjustment to the loan loss provisioning charge to reflect the fact that this additional revenue may not be collectable.

Fee income that is integral to the effective yield of a financial asset is recognized as an adjustment to the effective interest rate calculation and is included in interest revenue.

Fees charged to the customer for providing subsequent servicing of a financial asset are recognized as services are provided.

Fees charged for servicing loan portfolios, are based upon contracts with the customer that include fixed or determinable prices and specified rates and are recognized as the services are provided to the extent that it is probable that the economic benefits associated with the transaction will flow to the Fund and the amount of the revenue can be measured reliably.

Allowance for credit losses

The Fund assesses on an ongoing basis whether a loan asset or a group of loan assets is impaired. A loan asset or a group of loan assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset (a loss event) and the loss event has an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, excluding future expected credit losses that have not been incurred, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of the allowance for credit losses with the amount of the loss recognized through the income statement as a provision for credit losses.

The Fund's finance receivable portfolio is composed of a large number of homogeneous consumer loans, with relatively small balances originated in the same industry, and as such, the evaluation of the loan impairment is performed collectively for the group after allowances are made for individual impairment. Individual 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.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics, and that group of financial assets is collectively assessed for impairment. Future cash flows for the group of loan assets are estimated on the basis of their contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical 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. Future credit losses are not recognized. In assessing the impairment of finance receivables, management must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows and eventual losses. 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.

Deferred dealer obligation

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the reporting date, and, where the effect is material, are discounted using the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Discount rates are not adjusted to reflect risks specific to the liability to the extent for which future cash flow estimates have already been adjusted to reflect risk in the variability of outcomes. The expense relating to any provision is presented on the statement of earnings net of any reimbursement.

The Fund purchases certain finance receivables at a negotiated price that is less than the original principal amount being financed by the consumer. Under this program, finance receivables originated from each dealer are aggregated into dealer pools that track the collection history, cumulative losses, and overall financial performance of the pool over time. The dealer has a vested interest in their dealer pool, and can receive additional purchase consideration based upon the financial performance of the pool. Under the dealer agreement, a minimum of 20 accounts must be originated under the pool before any dealer participation begins. In addition, a dealer pool can only contain a maximum of 75 accounts at which time, any subsequent originations from that dealership are placed into a new dealer pool.

A provision of the estimated future purchase price consideration potentially payable by Carfinco to the dealership over the life of the pool is recognised as a reduction of interest revenues on the statement of earnings. The provision is based on assessing the historical collection and static loss data of each individual dealer pool, and utilizing that data to develop expectations on future financial performance of the pool at the end of the period. Historical information is adjusted to reflect changes in current conditions that did not exist in historical results, and to remove the effect of conditions in the historical period that do not exist currently. In addition, a range of possible outcomes is examined that take into consideration the inherent variability of possible outcomes, and the risk that actual outflows of resources may ultimately differ from those expected. Changes in circumstances may cause significant differences in future assessments and require increases or decreases in the deferred dealer obligation.

FUTURE ACCOUNTING CHANGES

IFRS 9 – Financial Instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* with IFRS 9 – *Financial Instruments*. The IASB project plan for the replacement of IAS 39 consists of three main phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules under IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013. However, in August 2011, the IASB issued an exposure draft which proposed changing this effective date to annual periods beginning on or after January 1, 2015. The Fund is monitoring the status of this exposure draft. The adoption of the first phase of this standard is not expected to have a material impact on the Fund's consolidated financial statements. At this time, the Fund cannot reasonably determine the impact the adoption of the second and third phase will have on the Fund's consolidated financial results.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Fund is currently evaluating the impact of adopting IFRS 13 on its consolidated financial statements.

RELATED PARTY TRANSACTIONS

The Fund's related party transactions are set out in Note 14 to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011. The transactions with related parties occurred in the normal course of operations at commercial rates agreed upon by the related parties.

Related party transactions include transactions with parties that have control or joint control over the reporting entity, have significant influence over the entity, are members of key management personnel of the Fund including the Trustees and Officers of the Fund, or are close family members of those individuals.

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 nine months ended September 30, 2011, payments of $338,900 (September 30, 2010 - $283,500) were made to Patica Securities Limited and as at September 30, 2011, there was $41,149 (December 31, 2010 - $31,500, January 1, 2010 - $31,500) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees of the Fund.

Subordinated debentures

Included in interest expense for the nine months ended September 30, 2011 is $nil (September 30, 2010 - $38,473) of interest paid to related parties during the period. As at January 1, 2010, $743,000 of subordinated debentures was issued to related parties. On April 30, 2010, the Fund repaid the outstanding principal balance and accrued interest on the stated maturity date of the subordinated debentures.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any other obligations which will have or are reasonably likely to have a current or future effect on the financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, other than operating leases.

RISK MANAGEMENT

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.

The Fund's risks and risk management procedures, as described in our 2010 annual report, have not changed substantially since those statements were issued. For a comprehensive discussion on the Fund's Risk Management, please refer to the December 31, 2010 Management's Discussion and Analysis.

OUTLOOK

Carfinco has continued to produce strong financial results for the three months ended September 30, 2011, reaching record pre-tax earnings for the tenth consecutive quarter. In addition, the Fund's annualized loss rate, and contractual delinquencies each remained stable during the quarter and are significantly below the rates from fiscal 2009 and 2010. . Finance receivable growth for the nine months ended September 30, 2011 has been slightly below target reaching 19.1% on an annualized basis in comparison to our 20.0% forecast, mostly due to lower anticipated volume in the second quarter of fiscal 2011. During the current quarter, the Fund reached record loan originations of $31,706,447, 13.3% higher than in the prior quarter and 22.7% higher than in the prior year comparative. Management remains optimistic that 20% growth in the portfolio is achievable for the fiscal 2011 year.

The Fund continues to hire additional dealer representatives in an effort to grow our dealer network and increase loan origination volume. In addition, Quebec and tiered pricing continue to remain a minimal portion of our loan portfolio that we feel both have substantial opportunity for future growth. The Fund reviews its credit and funding policies on an ongoing basis and makes adjustments as necessary to ensure we remain competitive with our dealer pricing and credit terms without significantly compromising our returns or risk tolerance.

Overall, management remains optimistic with the signing of our contract to service a $150 million loan portfolio and the addition of our servicing center in Quebec which will begin contributing earnings commencing in the fourth quarter. The servicing portfolio will generate additional fee revenue for the Fund and the addition of the center in Quebec will also benefit the Fund as we build our presence in the Province of Quebec.

ECONOMIC CONDITIONS

Since the second quarter, the outlook for the Canadian economy has weakened with the external environment affecting Canada through financial, confidence, and trade channels. In particular, sovereign debt and banking concerns in Europe, accompanied by the increased probability of a recession in the U.S., have weighed on the Canadian economy. Real gross domestic product rose during the month of August by 0.3% after increases of 0.4% and 0.2% in July and June respectively and, for the year, the Bank of Canada is forecasting the economy to expand by 2.1%. As of September 2011, the unemployment rate in Canada was 7.4%, the lowest rate since December 2008, however, was still above pre-recession levels that ranged from 6.0% to 6.3% in fiscal 2007 and the first half of 2008. On October 25, 2011, the Bank of Canada chose to maintain the target overnight lending rate at 1.0%, keeping it at near historic lows in light of this modest growth and uncertainty.

Overall, the Canadian economy continues to recover at a modest pace but will likely continue to be suppressed as a result of the uncertainty surrounding other global economies, particularly those in the U.S. and Europe. The Bank of Canada is anticipating growth in Canada to be slow through to mid-2012 before picking up as the global economy improves, uncertainty dissipates, and confidence increases.

Once again, management of the Fund is optimistic on its own outlook as contractual delinquencies and losses are well below recessionary levels. In addition, with the retention of additional capital as a result of the change in the Fund's distribution policy that commenced in the first quarter of this year, the Fund feels that it is well capitalized to endure any volatility that may arise if the Canadian economy were to enter another 2008-like recession. However, despite this optimism, if the economy were to enter another 2008-like recession, the Fund could be materially impacted, and as a result, management continues to remain prudent on credit policies and does not plan to significantly relax credit criteria to increase loan originations.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

For all periods up to and including the year ended December 31, 2010, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). On January 1, 2011, the Fund was required to adopt IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The disclosures concerning transition from GAAP to IFRS are included in Note 19 – Transition to International Financial Reporting Standards in the unaudited interim consolidated financial statements and in the Fund's MD&A as at, and for the three months ended March 31, 2011.

The Fund has applied the standards in place at the current date of reporting, however changes in accounting policies used to year end date may result in material changes to our reported financial position, earnings, and cash flows. Therefore, the unaudited consolidated interim financial statements for the period ended September 30, 2011 are subject to change. The Fund's independent auditor has not performed a review of the changes to the Fund's reported financial position and net earnings and comprehensive income as a result of the transition from GAAP to IFRS. The financial statements are the responsibility of the Fund's management and have been reviewed and approved by the Audit Committee.

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 IFRS.

Disclosure controls and procedures

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.

An evaluation of the effectiveness of the Fund's disclosure controls and procedures were conducted as of September 30, 2011, by and under the supervision of the Fund's management, including the CEO, and CFO. Based on this evaluation, the CEO, and CFO have concluded that the disclosure controls and procedures were effective.

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 September 30, 2011 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 IFRS.

Changes in internal controls over financial reporting

On January 1, 2011, the Fund adopted IFRS as its standard for financial reporting. The Fund's transition to IFRS in the period did not result in any significant changes to the Fund's internal controls over financial reporting. In addition, no other changes were made to internal controls over financial reporting during the three months ended September 30, 2011, 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.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL RESULTS

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Fund as at, and for the three and nine months ended September 30, 2011 and 2010, have been prepared in accordance with IFRS and are the responsibility of the Fund's management. The financial statements and related financial reporting matters have been reviewed and approved by the Audit Committee.

The Fund's independent auditor has not performed a review of these financial statements as at and for the three and nine months ended September 30, 2011 and 2010 in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited)	September 30, 2011	December 31, 2010	January 1, 2010
Assets			
Finance receivables (Note 5)	$ 143,196,071	$ 125,228,265	$ 101,403,463
Allowance for credit losses (Note 6)	(6,410,000)	(5,383,100)	(7,236,000)
Finance receivables – net	136,786,071	119,845,165	94,167,463
Cash	617,702	839,620	467,674
Inventories	191,808	147,000	287,800
Other assets	1,077,888	896,982	520,206
Equipment (Note 7)	322,041	352,407	373,433
Deferred tax assets (Note 8)	440,674	1,160,352	180,519
	2,650,113	3,396,361	1,829,632
	$ 139,436,184	$ 123,241,526	$ 95,997,095
Liabilities			
Bank credit facility (Note 9)	$ 98,450,139	$ 93,159,937	$ 68,438,145
Accounts payable and accrued liabilities (Note 10)	775,672	898,678	694,519
Taxes payable (Note 8)	3,768,946	-	-
Deferred dealer obligation (Note 11)	1,944,452	1,854,567	1,847,863
Derivative financial instruments (Note 12)	363,956	548,596	1,096,128
Subordinated debentures	-	-	2,143,000
Unit based payment obligation (Note 13(b))	116,691	76,936	31,809
	105,419,856	96,538,714	74,251,464
Unitholders' Equity			
Fund unit equity (Note 13(a))	35,119,425	35,119,425	30,566,633
Contributed surplus	615,362	615,362	615,362
Deficit	(1,718,459)	(9,031,975)	(9,436,364)
	34,016,328	26,702,812	21,745,631
	$ 139,436,184	$ 123,241,526	$ 95,997,095

Commitments (Note 18)

Post-reporting date events (Note 19)

See accompanying notes to the Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS, AND COMPREHENSIVE INCOME

(unaudited)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Financial revenue				
Interest revenue	$ 14,243,145	$ 11,938,981	$ 40,676,943	$ 33,455,731
Fee income	944,961	640,674	2,392,565	1,886,053
	15,188,106	12,579,655	43,069,508	35,341,784
Financial expenses				
Interest expense	1,293,706	1,122,662	3,738,255	3,155,299
Provision for credit losses	4,946,714	4,131,768	13,897,671	12,574,774
Gain on derivative financial instruments	(43,914)	(114,028)	(184,640)	(422,445)
Net financial income before operating expenses and taxes	8,991,600	7,439,253	25,618,222	20,034,156
Operating expenses				
General and administrative (Note 4)	2,989,748	2,433,806	8,212,501	7,096,649
Loss on unit based payment obligation (Note 13(b))	2,115	63,712	39,755	20,884
Depreciation of equipment	47,023	42,688	149,209	130,870
	3,038,886	2,540,206	8,401,465	7,248,403
Earnings before taxes	5,952,714	4,899,047	17,216,757	12,785,753
Taxes (Note 8)				
Current	1,250,538	-	3,768,946	-
Deferred (recovery)	382,070	(86,858)	719,678	(221,764)
	1,632,608	(86,858)	4,488,624	(221,764)
Net earnings and comprehensive income	$ 4,320,106	$ 4,985,905	$ 12,728,133	$ 13,007,517
Earnings per fund unit (Note 13(d))				
Basic	$ 0.18	$ 0.20	$ 0.52	$ 0.53
Diluted	$ 0.18	$ 0.20	$ 0.52	$ 0.53

See accompanying notes to the Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)		Fund unit equity		Contributed surplus		Deficit		Total
								(Note 19)
Balance, January 1, 2010	$	30,566,633	$	615,362	$	(9,436,364)	$	21,745,631
Net earnings		-		-		13,007,517		13,007,517
Cash distributions on fund unit equity		-		-		(9,942,414)		(9,942,414)
Balance, September 30, 2010		30,566,633		615,362		(6,371,261)		24,810,734
Net earnings		-		-		6,219,151		6,219,151
Cash distributions on fund unit equity		-		-		(4,319,828)		(4,319,828)
Unit distributions on fund unit equity		4,560,037		-		(4,560,037)		-
Fund unit issuance costs, net of tax		(7,245)		-		-		(7,245)
Balance, December 31, 2010		35,119,425		615,362		(9,031,975)		26,702,812
Net earnings		-		-		12,728,133		12,728,133
Cash distributions on fund unit equity		-		-		(5,414,617)		(5,414,617)
Balance, September 30, 2011	$	35,119,425	$	615,362	$	(1,718,459)	$	34,016,328

See accompanying notes to the Interim Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Increase (decrease) in cash		
Operating activities		
Net earnings	$ 12,728,133	$ 13,007,517
Non-cash items included in net earnings (Note 17)	(18,548,069)	(18,218,113)
Changes in operating assets and liabilities (Note 17)	(19,264,006)	(22,427,095)
Interest received	28,806,796	23,652,272
Interest paid	(3,613,333)	(3,017,950)
Net cash provided by (used in) operating activities	109,521	(7,003,369)
Investing activities		
Purchase of equipment	(118,843)	(150,452)
Net cash used in investing activities	(118,843)	(150,452)
Financing activities		
Advances on bank credit facility	10,740,314	19,398,675
Repayments on bank credit facility	(5,400,000)	-
Repayments on subordinated debentures	-	(2,143,000)
Deferred transaction costs	(138,293)	(141,928)
Proceeds on exercise of fund unit options	-	66,666
Fund unit cash distributions	(5,414,617)	(9,942,414)
Net cash (used in) provided by financing activities	(212,596)	7,237,999
Net (decrease) increase in cash	(221,918)	84,178
Cash, beginning of period	839,620	467,674
Cash, end of period	$ 617,702	$ 551,852

See accompanying notes to the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

1. ORGANIZATION OF THE FUND AND DESCRIPTION OF BUSINESS

Carfinco Income Fund (the "Fund" or "Carfinco") is an unincorporated open-end mutual fund trust existing under the laws of the Province of Alberta 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, existing under the laws of Alberta and 5.2% of Carfinco Inc. ("CAR"), a subsidiary existing under the laws of Alberta. CHT holds the remaining 94.8% ownership of CAR. CHT holds 25.0% and is the limited partner of Carfinco Limited Partnership ("CLP") and CAR holds the remaining 75.0% 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. BASIS OF PRESENTATION

The Fund is required to present the annual audited consolidated financial statements for the year ended December 31, 2011 under International Financial Reporting Standards ("IFRS"). For all periods up to and including the year ended December 31, 2010, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting. Amounts relating to the three and nine months ended September 30, 2010, and as at December 31, 2010 have been restated as necessary to be compliant with our accounting policies under IFRS. The accounting policies adopted in these interim consolidated financial statements are consistent with the accounting policies the Fund expects to adopt in its IFRS consolidated financial statements for the year ended December 31, 2011 and are based on IFRS as issued by the International Accounting Standards Board ("IASB") that the Fund expects to be applicable at that time. These interim consolidated financial statements do not include all necessary annual disclosures in accordance with IFRS and should be read in conjunction with the Fund's audited consolidated financial statements for the year ended December 31, 2010 presented under Canadian GAAP, the Fund's unaudited interim consolidated financial statements for the period ended March 31, 2011, and the accompanying notes to those consolidated financial statements. In addition, they should be read in conjunction with the disclosures concerning the transition from GAAP to IFRS included in Note 19 – Transition to International Financial Reporting Standards in the Fund's unaudited interim consolidated financial statements for the period ended March 31, 2011.

These interim consolidated financial statements were prepared on a going concern basis under the historical cost method except for certain financial assets and liabilities which are measured at fair value. The interim consolidated financial statements for the three and nine months ended September 30, 2011 were authorized for issue in accordance with a resolution of the Board of Trustees on November 8, 2011.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies we follow are described in Note 2 of the unaudited interim consolidated financial statements for the three months ended March 31, 2011.

Recent pronouncements

The Fund has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Fund:

IFRS 9 – Financial Instruments

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* with IFRS 9 – *Financial Instruments*. The IASB project plan for the replacement of IAS 39 consists of three main phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules under IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013. However, in August 2011, the IASB issued an exposure draft which proposed changing this effective date to annual periods beginning on or after January 1, 2015. The Fund is monitoring the status of this exposure draft. The adoption of the first phase of this standard is not expected to have a material impact on the Fund's consolidated financial statements. At this time, the Fund cannot reasonably determine the impact the adoption of the second and third phase will have on the Fund's consolidated financial results.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which provides a consistent and less complex definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and applies prospectively from the beginning of the annual period in which the standard is adopted. Early adoption is permitted. The Fund is currently evaluating the impact of adopting IFRS 13 on its consolidated financial statements.

Notes to the Interim Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2011 and 2010

4. General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Salaries, benefits, and director's remuneration	$ 1,588,606	$ 1,224,403	$ 4,232,035	$ 3,663,384
Loan administration	651,814	590,133	1,842,748	1,551,516
General and administrative	455,610	294,292	1,239,466	1,098,887
Professional and advisory services	210,838	272,992	663,619	618,486
Sales, marketing, and travel	82,880	51,986	234,633	164,376
	$ 2,989,748	$ 2,433,806	$ 8,212,501	$ 7,096,649

5. 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 contractual interest rates are due in the years as follows:

	September 30, 2011		December 31, 2010		January 1, 2010	
2010					$ 56,935,064	29.2%
2011	$ 20,837,068	29.3%	$ 71,350,829	29.3%	52,409,014	29.3%
2012	80,588,148	29.3%	65,621,727	29.4%	43,629,495	29.4%
2013	70,886,372	29.3%	50,552,473	29.4%	21,386,003	29.4%
2014	52,911,270	29.2%	25,676,457	29.4%	2,043,337	29.3%
2015	24,289,879	29.0%	4,244,816	29.2%		
2016	3,637,411	29.0%				
Gross finance receivables	253,150,148		217,446,302		176,402,913	
Unearned interest income	(92,847,596)		(76,321,354)		(62,326,987)	
Principal balance	160,302,552		141,124,948		114,075,926	
Unamortized fees, discounts, and transaction costs	(19,240,821)		(18,052,063)		(14,587,700)	
Accrued interest	2,134,340		2,155,380		1,915,237	
Finance receivables	$ 143,196,071		$ 125,228,265		$ 101,403,463	

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three and nine months ended September 30, 2011 and 2010

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.

An analysis of the age and credit quality of financial assets in each of the periods presented is as follows:

Portfolio aging

	September 30, 2011		December 31, 2010		January 1, 2010	
Current	$ 133,490,345	93.2%	$ 115,084,775	91.9%	$ 88,977,772	87.7%
Contractually past due:						
1 to 30 days	5,894,242	4.1%	6,261,413	5.0%	7,374,643	7.3%
31 to 60 days	2,591,292	1.8%	3,005,479	2.4%	3,328,244	3.3%
61 to 90 days	1,220,192	0.9%	876,598	0.7%	1,722,804	1.7%
91+ days	-	0.0%	-	0.0%	-	0.0%
	$ 143,196,071	100.0%	$ 125,228,265	100.0%	$ 101,403,463	100.0%

Credit quality

	September 30, 2011		December 31, 2010		January 1, 2010	
Neither past due nor impaired	$ 119,848,123	83.6%	$ 103,438,547	82.6%	$ 80,101,794	79.0%
Past due but not impaired:						
1 to 30 days	3,669,849	2.6%	4,257,761	3.4%	5,278,429	5.2%
31 to 60 days	807,469	0.6%	1,127,054	0.9%	1,661,766	1.6%
Impaired	18,870,630	13.2%	16,404,903	13.1%	14,361,474	14.2%
	$ 143,196,071	100.0%	$ 125,228,265	100.0%	$ 101,403,463	100.0%

The credit risk inherent in loans and receivables is detailed in Note 16 – Financial Risk Management. Under the review of credit quality, financial assets where there is evidence of non-payment or other objective evidence of impairment are considered to be impaired. Based upon historical information on customer default rates, management considers the credit quality of loans and receivables that are neither past due nor impaired to be satisfactory.

Past due but not impaired balances relate to financial assets which are contractually overdue but are not deemed impaired unless the customer is contractually overdue by greater than 60 days, at which point in time, the expected future cash flows from the financial assets deteriorate significantly. Impaired balances are defined as accounts contractually overdue greater than 60 days, debtors that have a deteriorated financial condition, such as borrowers entering bankruptcy or the Fund being in the process of legal or collateral repossession proceedings, and loan assets that exhibit an above average probability of going into default, such as borrowers that missed their first contractual loan payment.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

As at September 30, 2011, $468,998 of interest was accrued on impaired financial assets (December 31, 2010 – $447,818, January 1, 2010 - $476,212).

6. ALLOWANCE FOR CREDIT LOSSES

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

	Total
Allowance, January 1, 2010	$ 7,236,000
Provision for credit losses	16,607,583
Write-offs	(21,682,492)
Recoveries	3,222,009
Allowance, December 31, 2010	5,383,100
Provision for credit losses	13,897,671
Write-offs	(15,299,764)
Recoveries	2,428,993
Allowance, September 30, 2011	$ 6,410,000

A summary of the collective and individual components of the allowance for credit losses is as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Allowance for credit losses – collective	$ 534,500	$ 501,600	$ 2,215,400
Allowance for credit losses – individual	5,875,500	4,881,500	5,020,600
	$ 6,410,000	$ 5,383,100	$ 7,236,000

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

7. EQUIPMENT

	Furniture and Equipment	Computer and Office	Leasehold Improvements	Total
Cost:				
Balance at January 1, 2011	$ 245,934	$ 460,742	$ 164,964	$ 871,640
Additions	21,013	97,830	-	118,843
Disposals	(41,549)	(49,054)	-	(90,603)
Balance at September 30, 2011	$ 225,398	$ 509,518	$ 164,964	$ 899,880
Depreciation and impairment:				
Balance at January 1, 2011	$ 135,772	$ 291,448	$ 92,013	$ 519,233
Depreciation	34,163	60,332	54,714	149,209
Disposals	(41,549)	(49,054)	-	(90,603)
Balance at September 30, 2011	$ 128,386	$ 302,726	$ 146,727	$ 577,839
Net book value at September 30, 2011	$ 97,012	$ 206,792	$ 18,237	$ 322,041

	Furniture and Equipment	Computer and Office	Leasehold Improvements	Total
Cost:				
Balance at January 1, 2010	$ 272,271	$ 583,861	$ 85,227	$ 941,359
Additions	39,304	32,743	79,737	151,784
Disposals	(65,641)	(155,862)	-	(221,503)
Balance at December 31, 2010	$ 245,934	$ 460,742	$ 164,964	$ 871,640
Depreciation and impairment:				
Balance at January 1, 2010	$ 162,970	$ 370,210	$ 34,746	$ 567,926
Depreciation	38,443	77,100	57,267	172,810
Disposals	(65,641)	(155,862)	-	(221,503)
Balance at December 31, 2010	$ 135,772	$ 291,448	$ 92,013	$ 519,233
Net book value at January 1, 2010	$ 109,301	$ 213,651	$ 50,481	$ 373,433
Net book value at December 31, 2010	$ 110,162	$ 169,294	$ 72,951	$ 352,407

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

8. INCOME TAXES

Taxation of the Fund

Prior to January 1, 2011, taxation on publicly traded income trusts and limited partnerships (Specified Investment Flow-Through Entities or "SIFT"), including Carfinco Income Fund, were not subject to an entity-level tax if all of the taxable income of the Fund was allocated to unitholders. In 2007, the *Income Tax Act (Canada)* was amended to impose on Canadian public income trusts an entity-level tax on earnings that the SIFT trust distributes to its unitholders, at a rate applicable to income earned by a Canadian public corporation, and to prevent such trusts from deducting trust distributions when calculating taxable income. Undistributed earnings of the SIFT continue to be taxable at the full tax rate normally applicable to undistributed trust income.

Prior to March 17, 2011, under the Fund's Deed of Trust, all, or virtually all, of the taxable income of the Fund was required to be allocated to unitholders each fiscal year, and accordingly, no current provision for income taxes was recorded at the Fund level. On March 17, 2011, the Fund's Deed of Trust was amended to remove the obligation of the Fund to distribute all of its taxable income. Under these circumstances, prior to the date of the amendment, deferred tax assets and liabilities attributable to the Fund are measured at the SIFT tax rate applicable to distributed profits, and subsequently are measured at the tax rate applicable to undistributed profits. Current income tax assets and liabilities are measured at the tax rate applicable dependent upon whether the taxable earnings were distributed or undistributed to unitholders. Future expectations of distributions are not taken into consideration. As a result, the income tax benefit related to the distribution of income to unitholders is recognized in the period when the liability to pay a distribution occurs.

Carfinco Limited Partnership ("CLP") Unit Transfer

Effective June 30, 2011, Carfinco Holdings Trust transferred a 71.1% limited partnership interest in Carfinco Limited Partnership to Carfinco Inc., in accordance with the tax deferral provisions of subsection 85(1) of the *Income Tax Act (Canada)*. As payment for the transfer, Carfinco Inc. issued a 94.8% ownership interest to Carfinco Holdings Trust. As a result of the transaction, effective June 30, 2011, Carfinco Holdings Trust's ownership interest in Carfinco Limited Partnership has been reduced to 25.0%, down from 96.1%, with Carfinco Inc. holding the remaining 75.0% interest.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three and nine months ended September 30, 2011 and 2010

Components of deferred 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:

	September 30, 2011	December 31, 2010	January 1, 2010
Allowance for credit losses	$ 2,510,000	$ 4,924,439	$ 4,298,854
Equipment	38,854	61,323	38,423
Transaction costs	(1,659,671)	(1,390,874)	(1,349,340)
Derivative financial instruments	363,956	548,596	1,096,128
Unit issue costs	56,482	194,509	493,382
Tax loss carry-forwards	54,844	54,844	777
Total tax values in excess of carrying values	$ 1,364,465	$ 4,392,837	$ 4,578,224

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

	September 30, 2011	December 31, 2010	January 1, 2010
Deferred tax assets:			
Allowance for credit losses	$ 729,200	$ 1,304,976	$ 52,720
Equipment	9,888	15,950	10,088
Derivative financial instruments	141,943	142,086	131,598
Unit issue costs	22,028	51,388	48,921
Tax loss carry-forwards	14,534	14,534	218
	917,593	1,528,934	243,545
Valuation allowance	-	-	(46,478)
Total deferred tax assets	917,593	1,528,934	197,067
Deferred tax liabilities:			
Transaction costs	(476,919)	(368,582)	(16,548)
Total deferred tax liabilities	(476,919)	(368,582)	(16,548)
Net deferred tax assets	$ 440,674	$ 1,160,352	$ 180,519

In assessing whether the deferred tax assets are realizable, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be utilized. The ultimate realization of deferred 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 not provided for a valuation allowance as at September 30, 2011 and December 31, 2010. The amount of the

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

deferred 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 September 30, 2011, loss carry-forwards of $54,844 (December 31, 2010 - $54,844, January 1, 2010 - $777) 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.

9. BANK CREDIT FACILITY

	September 30, 2011	December 31, 2010	January 1, 2010
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	-
Interest rate of 4.59%, maturing on October 13, 2011	90,000,000	-	-
Interest rate of 4.58%, maturing on December 5, 2011	5,000,000	-	-
Prime rate loan	3,650,081	8,309,766	3,570,658
Unamortized deferred transaction costs	(199,942)	(149,829)	(132,513)
	$ 98,450,139	$ 93,159,937	$ 68,438,145

Interest expense includes amortization of deferred transaction costs in each of the periods presented as follows:

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Amortization of deferred transaction costs	$ 35,295	$ 42,688	$ 88,180	$ 112,254

Terms and security

The bank credit facility is a demand loan, which is the lesser at any time of: a) $130,000,000 (December 31, 2010 - $105,000,000, January 1, 2010 - $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% (December 31, 2010 – 1.75%, January 1, 2010 – 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% (December 31, 2010 – 3.25%, January 1, 2010 – 3.25%). A stand-by fee of 0.375% (December 31, 2010 – 0.375%, January 1, 2010 – 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 (December 31, 2010 – June 30, 2013, January 1, 2010 – December 15, 2010).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 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 (see Note 15), all of which the Fund was in compliance with at September 30, 2011, December 31, 2010, and January 1, 2010.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following components:

	September 30, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	$ 585,672	$ 551,678	$ 362,019
Refundable dealer deposits [1]	190,000	347,000	332,500
	$ 775,672	$ 898,678	$ 694,519

(1) Refundable dealer deposits reflect amounts paid by dealerships to participate under certain finance programs. The deposits are refundable to the dealership contingent upon a specified volume of loans being originated within a twelve month period.

11. DEFERRED DEALER OBLIGATION

The deferred dealer obligation relates mainly to loans 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.

	Total
Deferred dealer obligation, January 1, 2010	$ 1,847,863
Provisions made during the period	661,589
Provisions utilized during the period	(701,673)
Changes in and unwinding of the discount rate during the period	46,788
Deferred dealer obligation, December 31, 2010	1,854,567
Provisions made during the period	621,843
Provisions utilized during the period	(568,700)
Changes in and unwinding of the discount rate during the period	36,742
Deferred dealer obligation, September 30, 2011	$ 1,944,452

The provision was calculated by taking into account the finance term, historical collection, prepayment, write-off, and deferment rates on loans originated under this program. The loans have a maximum term of 54 months. The timing of outflows of economic benefits associated with the purchase price consideration varies depending on a number of factors, and as such, the provision and timing of outflows are subject to uncertainty.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2011 and 2010

12. DERIVATIVE FINANCIAL INSTRUMENTS

On August 23, 2007, the Fund entered into two interest rate swap agreements with a combined notional amount of $20,000,000 which fixes the interest rate on a portion of the Fund's bank credit facility. 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 remaining interest rate swap agreement has been classified as a "financial instrument measured at fair value through profit or loss." 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 three months ended September 30, 2011, a gain of $43,914 (September 30, 2010 - $114,028) was recorded. During the nine months ended September 30, 2011, a gain of $184,640 (September 30, 2010 - $422,445) was recorded, and the fair value of the interest rate swap at September 30, 2011 was a liability of $363,956 (December 31, 2010 - $548,596, January 1, 2010 - $1,096,128).

13. FUND UNITS AND UNITHOLDERS' EQUITY

a) Fund units

Under IAS 32, an instrument is classified as a financial liability if it contains a puttable feature, such as a contractual obligation for the issuer of the instrument to repurchase or redeem the instrument for cash or another financial asset. The Fund's units are redeemable at the holder's option, generally at any time, subject to certain restrictions, at a redemption price equal to the lesser of 95% of the 10-day simple average closing market price of the Fund's units subsequent to the redemption date, or 100% of the closing market price on the redemption date. The total amount payable by the Fund in any calendar month shall not exceed $75,000 unless waived by the Trustee's at their sole discretion. These redemption privileges classify the Fund's units as financial liabilities under IAS 32 prior to the consideration of the puttable instrument exemption.

IAS 32 allows certain financial liabilities to be measured as equity if certain criteria are met. As at each reporting date, the units of the Fund met the puttable instrument exemption and are therefore classified as equity.

The estimated cash outflow required, as at September 30, 2011, to settle the redemption obligation would be $147,425,257 (December 31, 2010 - $175,975,056, January 1, 2010 - $58,637,141), as calculated on the closing market price of the Fund's units on that date. The Trustees manage this obligation by limiting the total amount payable by the Fund, in any calendar month, to $75,000 under the terms of the Deed of Trust. Historically, the Fund has not been asked to redeem units for cash.

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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		Fund unit equity
Balance, January 1, 2010	23,933,527	$	30,566,633
Exercised employee unit options	66,666		-
Fund units issued on fund unit distribution	611,703		4,560,037
Fund unit issuance costs, net of tax	-		(7,245)
Balance, December 31, 2010	24,611,896		35,119,425
Balance, September 30, 2011	24,611,896	$	35,119,425

b) Unit based payment obligations

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.

As a result of the ability of unitholders to redeem their Fund units for cash or other financial assets, options to acquire units are classified as cash-settled liabilities and are measured at fair value at each reporting date. The impact of fair value re-measurements during the vesting period are recognized immediately in the statement of earnings to the extent that they relate to past services. As a result, the recognized liability at the end of each reporting period is equal to the total fair value of the liability. The fair value of unit options is measured using the Black-Scholes Option-Pricing Model.

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

	Unit Options	Weighted Average Exercise Price
Outstanding, January 1, 2010	100,000	$ 2.00
Granted	-	-
Exercised	(66,666)	2.00
Outstanding, December 31, 2010	33,334	$ 2.00
Exercisable, January 1, 2010	33,333	$ 2.00
Exercisable, December 31, 2010	-	-

	Unit Options	Weighted Average Exercise Price
Outstanding, December 31, 2010	33,334	$ 2.00
Granted	-	-
Exercised	-	-
Outstanding, September 30, 2011	33,334	$ 2.00
Exercisable, September 30, 2011	-	$ -

The following table summarizes information about options outstanding and exercisable for each of the periods presented:

September 30, 2011	Options Outstanding			Options Exercisable	
Exercise Price Range	Number	Remaining Life (Years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$2.00	33,334	1.12	$ 2.00	-	$ -

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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	-	$ -

January 1, 2010		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 nine months ended September 30, 2011, a loss of $39,755 (September 30, 2010 – loss of $20,884) of unit-based payment obligations were recognized related to unit-based compensation expense and fair value adjustments.

c) Distribution of income to unitholders'

Prior to January 1, 2011, pursuant to the Deed of Trust of the Fund, the Trustees were required to 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 through a combination of cash and/or unit distributions at the option of the Trustees.

As a result of the recent changes to taxation laws, it was the opinion of the Trustees that it was no longer appropriate that the Fund be required to distribute all of its taxable income to unitholders as such distributions generally will no longer be deductible or provide a substantial benefit to the Fund for income tax purposes. Accordingly, on March 17, 2011, the Trustees amended the Deed of Trust to remove the requirement to fully distribute its taxable income to unitholders each fiscal year.

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.

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Distributions on units of record during the nine months ended September 30, 2011 and year ended December 31, 2010 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
January 20, 2011	January 31, 2011	0.020	492,238
February 18, 2011	February 28, 2011	0.020	492,238
March 18, 2011	March 31, 2011	0.025	615,297
April 20, 2011	April 29, 2011	0.025	615,297
May 20, 2011	May 31, 2011	0.025	615,297
June 20, 2011	June 30, 2011	0.025	615,298
July 20, 2011	July 29, 2011	0.025	615,297
August 19, 2011	August 31, 2011	0.025	615,298
September 20, 2011	September 30, 2011	0.030	738,357
Total cash distributions for 2011		0.220	5,414,617
Accumulated cash distributions to unitholders for 2010 and 2011		$ 0.815	$ 19,676,859

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d) Earnings per fund unit

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

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Basic and diluted:				
Net earnings	$ 4,320,106	$ 4,985,905	$ 12,728,133	$ 13,007,517
Weighted average number of fund units outstanding [1]	24,611,896	24,578,563	24,611,896	24,562,446
Basic and diluted earnings per fund unit	$ 0.18	$ 0.20	$ 0.52	$ 0.53

(1) The weighted average number of fund units outstanding for the three and nine months ended September 30, 2010 has been restated for the 611,703 additional Trust Units distributed to unitholders on December 31, 2010.

Diluted earnings per fund unit is calculated by adjusting the weighted average number of units outstanding, and net earnings for the effects of all dilutive instruments. Unit options are evaluated as to whether or not they are dilutive based on the effect on earnings for any adjustments that would be made upon exercise of the unit options, such as the elimination of the unit based payment obligation liability, and for increases in the weighted average number of units outstanding. In calculating diluted earnings per fund unit for each of the periods presented, unit options were excluded as their effect would be antidilutive.

14. RELATED PARTY TRANSACTIONS

Related party transactions include transactions with parties that have control or joint control over the reporting entity, have significant influence over the entity, are members of key management personnel of the Fund including the Trustees and Officers of the Fund, or are close family members of those individuals.

The Fund enters into transactions, arrangements, and agreements involving Trustees, Officers, and key management personnel in the normal course of business operations at commercial rates agreed upon by the related parties. Transactions between the Fund and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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Compensation of key management personnel

The key management personnel of the Fund are deemed to be the executive and non-executive trustees of Carfinco Income Fund, and the members of the senior management group.

	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Short-term employee benefits	$ 291,050	$ 253,721	$ 867,011	$ 769,818
Loss on unit based payment obligation	2,115	63,712	39,755	20,884
	$ 293,165	$ 317,433	$ 906,766	$ 790,702

Short-term employee benefits comprise of salaries, bonuses, trustee fees, and benefits in the period. Details of the Fund's unit-based payment obligations are outlined in Note 13(b) of the consolidated financial statements.

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 nine months ended September 30, 2011, payments of $338,900 (September 30, 2010 - $283,500) were made to Patica Securities Limited and as at September 30, 2011, there was $41,149 (December 31, 2010 - $31,500, January 1, 2010 - $31,500) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees of the Fund.

Subordinated debentures

Included in interest expense for the nine months ended September 30, 2011 is $nil (September 30, 2010 - $38,473) of interest paid to related parties during the period. As at January 1, 2010, $743,000 of subordinated debentures was issued to related parties. On April 30, 2010, the Fund repaid the outstanding principal balance and accrued interest on the stated maturity date of the subordinated debentures.

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15. CAPITAL MANAGEMENT

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.

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

	September 30, 2011	December 31, 2010	January 1, 2010
Unitholders' equity	$ 34,016,328	$ 26,702,812	$ 21,745,631
Derivative financial instruments	363,956	548,596	1,096,128
Subordinated debentures	-	-	2,143,000
Total capitalization	$ 34,380,284	$ 27,251,408	$ 24,984,759

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 as at September 30, 2011, December 31, 2010, September 30, 2010 and January 1, 2010. As a result of the transition to IFRS, the Fund exceeded the financial leverage ratio as at September 30, 2010 and December 31, 2010. The banking syndicate has agreed to use previous GAAP for calculating covenants up to and including December 31, 2010 and will use IFRS for periods commencing on January 1, 2011. Under previous GAAP, the financial leverage ratio was 3.37:1 and 3.14:1 as at September 30, 2010 and December 31, 2010 respectively, and as a result, the Fund was not in breach of this covenant. In addition, as at September 30, 2011, December 31, 2010, September 30, 2010, and January 1, 2010, 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.

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The following financial condition ratios are monitored by the Fund in managing its capital structure:

Covenants	Requirement	September 30, 2011	December 31, 2010	September 30, 2010	January 1, 2010
Financial leverage ratio [1]	< 3.50	3.06	3.52	3.55	2.84
Interest coverage ratio (quarterly)	>=1.50	5.60	5.56	5.30	

(1) As a result of the transition to IFRS, the Fund exceeded the financial leverage ratio as at September 30, 2010 and December 31, 2010. The banking syndicate has agreed to use previous GAAP for calculating covenants up to and including December 31, 2010 and will use IFRS for periods commencing on January 1, 2011. Under previous GAAP, the financial leverage ratio was 3.37:1 and 3.14:1 as at September 30, 2010 and December 31, 2010 respectively, and as a result, the Fund was not in breach of this covenant.

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 depreciation of equipment for the trailing three months ended.

16. FINANCIAL 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. The following summarizes the types of market price risks that the Fund is exposed, and the policies and procedures for measuring and managing risk.

a) 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. For the Fund, 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 counterparties are unable to meet the terms of their agreements. Credit risk primarily arises from events and circumstances that are outside the Fund’s control relating to customer under-performance from factors such as loss of employment, divorce, illness, business failure, adverse economic conditions or fraud. The Fund originates transactions in a relatively high-risk segment of the consumer finance industry and, therefore, write-offs are anticipated.

To manage credit risk, the Fund performs detailed assessments on the value of the security, the customer’s financial condition and ability to service the debt both at loan inception and throughout the term of the loan, in addition to maintaining prudent underwriting methods. Carfinco also frequently purchases loans at a negotiated price that is less than the principal amount being financed by the debtor enabling the Fund to minimize losses arising on defaults by limiting the level of the Fund’s own capital at risk. Credit risk associated with the Fund’s cash holdings is managed by holding its funds with reputable financial institutions.

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Concentration

All of the Fund's loans and receivables cater to a high-risk segment of the consumer finance market, focusing on individuals unable to obtain financing from traditional lending sources due to limited, poor, or no credit history. Carfinco'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. In addition to limiting the value of each customer's debt, Carfinco maintains a large geographically disbursed loan portfolio that reduces the risk of loss arising from adverse regional economic conditions.

As of each of the periods presented, the geographic distribution of the Fund's loan portfolio is as follows:

September 30, 2011	Western Canada	Eastern Canada	Total
Finance receivables	$ 85,277,015	$ 57,919,056	$ 143,196,071
Percent of finance receivables	59.6%	40.4%	100.0%

December 31, 2010	Western Canada	Eastern Canada	Total
Finance receivables	$ 72,191,486	$ 53,036,779	$ 125,228,265
Percent of finance receivables	57.7%	42.3%	100.0%

January 1, 2010	Western Canada	Eastern Canada	Total
Finance receivables	$ 53,795,688	$ 47,607,775	$ 101,403,463
Percent of finance receivables	53.1%	46.9%	100.0%

Exposure to credit risk

The Fund's maximum exposure to credit risk is represented by the carrying amount for finance receivables and cash. Carfinco secures each individual finance receivable with the registration of a security interest/lien against tangible assets. The Fund is exposed to the risk that the security upon which its advances are made may reduce in value, so that the Fund may not recover some or all of its advances in the event of a customer default.

An analysis of the age and credit quality of financial assets is outlined in Note 5 – Finance Receivables.

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b) 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 – Capital Management. 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 primarily relies on its bank credit facility as its primary source of funding. As at September 30, 2011, the Fund had un-drawn and committed bank borrowing facilities of $31,349,919. 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 debt and/or fund unit equity, if necessary, will be sufficient to cover the Fund's normal operating and capital expenditures.

The following tables set out the gross undiscounted contractual maturities of the Fund's financial instruments: [1]

September 30, 2011	2011	2012	2013	2014 +	Total
Financial assets:					
Cash	$ 617,702	-	-	-	$ 617,702
Finance receivables [2]	20,837,068	80,588,148	70,886,372	80,838,560	253,150,148
Financial liabilities:					
Bank credit facility [3]	98,650,081	-	-	-	98,650,081
Accounts payable and accruals	775,672	-	-	-	775,672
Derivative financial instruments [4]	94,989	238,532	-	-	333,521

December 31, 2010	2011	2012	2013	2014 +	Total
Financial assets:					
Cash	$ 839,620	-	-	-	$ 839,620
Finance receivables [2]	71,350,829	65,621,727	50,552,473	29,921,273	217,446,302
Financial liabilities:					
Bank credit facility [3]	93,309,766	-	-	-	93,309,766
Accounts payable and accruals	898,678	-	-	-	898,678
Derivative financial instruments [4]	355,380	214,923	-	-	570,303

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January 1, 2010	2010	2011	2012	2013 +	Total
Financial assets:					
Cash	$ 467,674	-	-	-	$ 467,674
Finance receivables [2]	56,935,064	52,409,014	43,629,495	23,429,340	176,402,913
Financial liabilities:					
Bank credit facility [3]	68,570,658	-	-	-	68,570,658
Accounts payable and accruals	694,519	-	-	-	694,519
Derivative financial instruments [4]	742,609	380,736	176,096	-	1,299,441
Subordinated debentures [5]	2,241,637	-	-	-	2,241,637

1) The financial instruments are shown gross to reflect capital and interest. As a result, the amounts presented may not be equal to the carrying amounts presented on the Fund's statement of financial position.

2) Figures presented represent the contractual payments, including principal and interest, of the Fund's finance receivables. Historical experience has shown that the actual contractual payment stream will vary depending on a number of variables including 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.

3) The bank credit facility is a demand loan with a stated maturity date of June 30, 2013 (December 31, 2010 – June 30, 2013, January 1, 2010 – December 15, 2010).

4) Derivative financial instruments 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.

5) Included in the contractual maturities is $98,637 of interest payments on subordinated debentures.

c) Market risk

Market risk is the risk of losses that results from changes in market prices, such as interest rates, equity prices, or foreign exchange rates, that have the effect of modifying the Fund's future cash flows, or fair values of its financial instruments. The principal market risk to the Fund is interest rate risk. When issued, the Fund's subordinated debt contracts bear interest at fixed rates of interest. 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 short periods and by using interest rate swap agreements to lock the interest rate on a portion of its debt for longer periods.

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As at September 30, 2011, the Fund had entered into the following arrangements to minimize its exposure to changes in floating interest rates:

September 30, 2011	Maturity Date	Notional Amount	Fixed Bankers' Acceptance Rate
Floating to fixed banker's acceptance rate swap	August 23, 2012	$ 10,000,000	4.99%
Banker's acceptance equivalent loan [1]	October 13, 2011	$ 90,000,000	1.34%
Banker's acceptance equivalent loan [1]	December 5, 2011	$ 5,000,000	1.33%

1) The Fund has the option to lock a portion of its outstanding loan balance in bankers' acceptance equivalent loans, which bear interest at the bankers' acceptance rate plus 3.25%.

The Fund estimates that a 100 basis point increase (decrease) in interest rates during the period, with all the other variables constant, would result in an increase (decrease) in interest expense as follows:

For the nine months ended	September 30, 2011	September 30, 2010
Bank credit facility	$ 711,000	$ 583,000
Interest rate swap agreements	(83,000)	(139,000)
	$ 628,000	$ 444,000

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

Fair value

The Fund's policy for determining the fair value of financial instruments is outlined in Note 3 – Summary of Significant Accounting Policies. The following methods and assumptions were used to estimate the fair value of each financial instrument:

- Finance receivables is calculated by discounting the expected future cash flows of the portfolio at current market rates for loans with similar terms and risk, as currently, there is no organized market for valuing the finance receivable portfolio;
- Cash, bank credit facility, accounts payable and accrued liabilities, and subordinated debentures are assumed to approximate their carrying value, due to their short term nature;
- Derivative financial instruments are calculated using market prices that the Fund would pay or receive to settle the related arrangements;

Notes to the Interim Consolidated Financial Statements (Unaudited)

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The following table sets out a comparison of the carrying amount and fair values of finance receivables:

Finance receivables – net	September 30, 2011	December 31, 2010	January 1, 2010
Book value	$ 136,786,071	$ 119,845,165	$ 94,167,463
Fair value	140,072,619	121,897,644	96,783,467

The fair values of the remainder of the Fund's financial assets and financial liabilities are not considered to be materially different from their carrying values on the consolidated statement of financial position. Although the Fund believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different estimates of fair value.

IFRS 7 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.

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

September 30, 2011	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Derivative financial instruments	$ -	$ 363,956	$ -	$ 363,956

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December 31, 2010	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Derivative financial instruments	$ -	$ 548,596	$ -	$ 548,596

January 1, 2010	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Derivative financial instruments	$ -	$ 1,096,128	$ -	$ 1,096,128

During the three and nine months ended September 30, 2011 and 2010, no financial instruments measured at fair value were classified as Level 3 financial instruments. The Fund has not made changes to its valuation techniques over the prior period.

17. ADDITIONAL CASH FLOW INFORMATION

Non-cash items included in net earnings

For the nine months ended,	September 30, 2011	September 30, 2010
Interest revenue	$ (40,676,943)	$ (33,455,731)
Interest expense	3,738,255	3,155,299
Gain on derivative financial instruments	(184,640)	(422,445)
Provision for credit losses	13,897,671	12,574,774
Depreciation of equipment	149,209	130,870
Loss on unit based payment obligation	39,755	20,884
Current income tax expense	3,768,946	-
Deferred tax expense (recovery)	719,678	(221,764)
	$ (18,548,069)	$ (18,218,113)

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Change in operating assets and liabilities

For the nine months ended,	September 30, 2011	September 30, 2010
Finance receivables	$ (18,346,586)	$ (21,941,790)
Inventories	(44,808)	152,199
Other assets	(180,906)	(255,915)
Accounts payable and accrued liabilities	(123,006)	170,109
Deferred dealer obligation	(568,700)	(551,698)
	$ (19,264,006)	$ (22,427,095)

18. COMMITMENTS

Operating lease arrangements

The Fund has entered into commercial leases for operating premises. The Fund enters into leases with terms ranging from 2 to 5 years at inception with no renewal options included in the contracts. There have been no restrictions placed upon the lessee by entering into these leases. Under the terms of the leasing agreements, the leases expire on dates ranging from December 31, 2011 to December 31, 2017.

Included in general and administrative expenses for the nine months ended September 30, 2011 is $298,811 (September 30, 2010 - $265,115) of operating lease expenses. Future minimum lease payments under non-cancellable operating leases as at the end each period are as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
Within one year	$ 232,900	$ 175,800	$ 174,800
After one year but not more than five years	1,037,400	-	175,800
More than five years	50,100	-	-
	$ 1,320,400	$ 175,800	$ 350,600

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
For the three and nine months ended September 30, 2011 and 2010

19. POST-REPORTING DATE EVENTS

Plan of Arrangement

On October 17, 2011, the Board of Trustees of the Fund approved a proposed transaction providing for the conversion of the Fund from an income trust to a corporation. Pursuant to a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta), Unitholders of the Fund will receive, for each unit of the Fund held, one common share of Carfinco Financial Group Inc. ("New Carfinco") on the effective date of the Arrangement. The Arrangement will result in New Carfinco holding the assets and business operations previously held and operated by the Fund and its subsidiaries. All of the members of the Board of Trustees, and the senior officers of the Fund, will continue as the directors and officers of New Carfinco. Following completion of the Arrangement, the former Unitholders of the Fund will hold all outstanding common shares of New Carfinco.

Since the Arrangement does not contemplate a change of control for accounting purposes, the financial statements of New Carfinco will be the continuation of the Fund's. As a result of the Arrangement, the consolidated financial statements of New Carfinco will reflect the assets and liabilities of the Fund at their respective carrying amounts.

Completion of the transactions as contemplated in the Arrangement are subject to certain conditions, including regulatory approval and approval of not less than 66 2/3% of the votes cast at a special meeting of the Fund's Unitholders scheduled for November 21, 2011. It is anticipated that the Arrangement would become effective on or about January 1, 2012.