



*Consolidated Financial Statements of*

**C.A. BANCORP INC.**

*December 31, 2010*

# **C.A. BANCORP INC.**

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**December 31, 2010**

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## Independent Auditor's Report

To the Shareholders of  
C.A. Bancorp Inc.

We have audited the accompanying consolidated financial statements of C.A. Bancorp Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, the consolidated statements of operations and comprehensive (loss) earnings, deficit and accumulated other comprehensive income, cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

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

## **Emphasis of Presentation**

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements describing the accounting policies used to prepare the consolidated financial statements on the liquidation basis from October 1, 2010. The consolidated financial statements were prepared by management on this basis because the company's operations are expected to be wound up prior to December 31, 2012.



Chartered Accountants  
Licensed Public Accountants  
March 23, 2011

# C.A. BANCORP INC.

## Consolidated Balance Sheets

As at December 31, 2010 and December 31, 2009 (in \$ thousands)

Note

2010

2009

### ASSETS

Cash and cash equivalents	3	\$	8,070	\$	11,114
Accounts receivable			648		1,659
Prepaid expenses and other assets			106		97
Publicly traded investments	4		72		1,718
Loans receivable	5		24		58
Investments in private entities	6		20,753		37,654
Investment in Charter REIT	7		-		7,502
Investment in C.A. Bancorp Canadian Realty Finance Corporation	8		6,400		8,900
Intangible assets	8		-		2,394
Future income tax assets	16		-		264
Capital assets	9		15		154
		\$	36,088	\$	71,514

### LIABILITIES

Accounts payable and accrued liabilities		\$	1,149	\$	1,935
Future income tax liabilities	16		-		155
Note payable to C.A. Bancorp Canadian Realty Finance Corporation	8		1,451		1,825
Accrued liquidation costs	10		2,417		-
			5,017		3,915

### NON-CONTROLLING INTERESTS

- (43)

### SHAREHOLDERS' EQUITY

Share capital	15		35,333		76,996
Contributed surplus	15		16,101		4,960
Deficit			(20,363)		(14,314)
			31,071		67,642
		\$	36,088	\$	71,514

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"John F. Driscoll"

..... Director

"Frank Potter"

..... Director

The accompanying notes are an integral part of these consolidated financial statements.

# C.A. BANCORP INC.

## Consolidated Statements of Operations and Comprehensive (Loss) Earnings

For the year ended December 31

(in \$ thousands except per share amounts)

	<i>Note</i>	2010	2009
<b>REVENUE</b>			
Interest and investment income		\$ 3,362	\$ 3,124
Asset management fees		1,119	1,976
Other fees and commissions		261	295
		<b>4,742</b>	<b>5,395</b>
<b>NET RESULTS OF INVESTMENTS</b>			
Change in unrealized gain on publicly traded investments		3,584	1,630
Realized loss on sale of publicly traded investments		(3,494)	(781)
Change in unrealized gain on investments in private entities		5,872	253
Realized loss on sale of investments in private entities		(4,210)	-
Equity participation in private entities		60	84
Equity participation in Charter REIT	7	(429)	(542)
Gain on sale of investment in Charter REIT	7	2,098	-
Equity participation in C.A. Bancorp Canadian Realty Finance Corporation	8	263	342
Impairment loss on C.A. Bancorp Canadian Realty Finance Corporation	8	(2,333)	-
Unrealized gain related to C.A. Bancorp Canadian Realty Finance Corporation	8	304	-
Impairment loss on intangible asset related to C.A. Bancorp Canadian Realty Finance Corporation	8	(2,224)	-
Impairment loss on goodwill and intangible assets related to Aventine		-	(2,070)
Impairment loss related to Aventine	17	(154)	-
Other corporate investments		-	(82)
		<b>(663)</b>	<b>(1,166)</b>
<b>EXPENSES</b>			
Employee		3,187	3,011
General and administration		1,328	1,592
Audit, legal and other corporate		412	1,154
Interest		109	177
Paid to Sentry Select	12	103	2,598
Write-off of capital assets		89	-
Depreciation and amortization	9	55	61
Stock based compensation	14	-	(693)
Hostile defense and strategic review process	13	2,286	753
Liquidation costs	10	2,417	-
		<b>9,986</b>	<b>8,653</b>
<b>NET LOSS BEFORE INCOME TAXES</b>		<b>(5,907)</b>	<b>(4,424)</b>
<b>PROVISION (RECOVERY) FOR INCOME TAXES</b>			
Current tax recovery	16	(10)	(468)
Future tax provision	16	109	994
		<b>99</b>	<b>526</b>
<b>NET LOSS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTERESTS</b>		<b>(6,006)</b>	<b>(4,950)</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>43</b>	<b>(109)</b>
<b>NET LOSS FROM CONTINUING OPERATIONS</b>		<b>(6,049)</b>	<b>(4,841)</b>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>		<b>-</b>	<b>6,963</b>
<b>OTHER COMPREHENSIVE EARNINGS</b>		<b>-</b>	<b>-</b>
<b>NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) EARNINGS</b>		<b>\$ (6,049)</b>	<b>\$ 2,122</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands)</b>			
Basic		26,303	26,905
Diluted		26,303	26,905
<b>NET (LOSS) EARNINGS PER SHARE - BASIC</b>			
Continuing operations		\$ (0.23)	\$ (0.18)
Discontinued operations		-	0.26
Net (loss) earnings per share		\$ (0.23)	\$ 0.08
<b>NET (LOSS) EARNINGS PER SHARE - DILUTED</b>			
Continuing operations		\$ (0.23)	\$ (0.18)
Discontinued operations		-	0.26
Net (loss) earnings per share		\$ (0.23)	\$ 0.08

The accompanying notes are an integral part of these consolidated financial statements.

**C.A. BANCORP INC.**  
**Consolidated Statements of Deficit and Accumulated Other**  
**Comprehensive Income**

**For the year ended December 31**

(in \$ thousands)

	Deficit	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2008	\$ (16,436)	\$ -	\$ (16,436)
Net earnings for the period	2,122	-	2,122
Net unrealized losses on available-for-sale securities	-	(3,704)	(3,704)
Reclassification of losses on available-for-sale securities to income	-	3,704	3,704
<b>Balance, December 31, 2009</b>	<b>\$ (14,314)</b>	<b>\$ -</b>	<b>\$ (14,314)</b>
<b>Net loss for the period</b>	<b>(6,049)</b>	<b>-</b>	<b>(6,049)</b>
<b>Balance, December 31, 2010</b>	<b>\$ (20,363)</b>	<b>\$ -</b>	<b>\$ (20,363)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**C.A. BANCORP INC.**  
**Consolidated Statements of Cash Flows**

For the year ended December 31 (in \$ thousands)

	<i>Note</i>	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES IN CONTINUING OPERATIONS</b>			
Net (loss) earnings		\$ (6,049)	\$ 2,122
Less: earnings from discontinued operations, net of tax		-	6,963
Net loss from continuing operations		(6,049)	(4,841)
Adjusted for non-cash items:			
Depreciation and amortization		55	61
Write-off of capital assets		89	-
Bad debt provision		2	-
Stock based compensation		-	(693)
Non-controlling interest		43	(109)
Future tax provision	16	109	994
Change in unrealized gain on publicly traded investments	4	(3,584)	(1,630)
Realized loss on publicly traded investments	4	3,494	781
Non-cash interest income on investments in private entities	6	(1,616)	(1,131)
Change in unrealized gain on investments in private entities	6	(5,872)	(253)
Equity participation in private entities	6	(60)	(84)
Realized loss on investments in private entities	6	4,210	-
Equity participation in Charter REIT	7	429	542
Gain on sale of Charter REIT	7	(2,098)	-
Equity participation in C.A. Bancorp Canadian Realty Finance Corporation	8	(263)	(342)
Impairment loss on C.A. Bancorp Canadian Realty Finance Corporation	8	2,333	-
Unrealized gain related to C.A. Bancorp Canadian Realty Finance Corporation	8	(304)	-
Impairment loss on intangible asset related to C.A. Bancorp Canadian Realty Finance Corporation	8	2,224	-
Impairment loss on goodwill and intangible assets related to Aventine		-	2,070
Impairment loss on Aventine	17	154	-
Other Aventine related items		(157)	-
Other corporate investments		-	82
		(6,861)	(4,553)
Increase (decrease) in accounts payables and accrued liabilities		1,631	(1,386)
Decrease (increase) in accounts receivable		1,011	(527)
(Increase) decrease in prepaid expenses and other assets		(9)	260
Cash flows used in operating activities in continuing operations		(4,228)	(6,206)
<b>CASH FLOWS FROM INVESTING ACTIVITIES IN CONTINUING OPERATIONS</b>			
Cash held as collateral		-	700
Purchase of publicly traded investments	4	(13)	(12)
Sale proceeds of publicly traded investments	4	1,754	1,167
Loans issued	5	-	(131)
Loans repaid	5	32	177
Sale and maturity of investments in private entities	6	20,992	1,750
Investments in private entities		(753)	(7,684)
Distributions received from Charter REIT	7	403	966
Investment in Charter REIT	7	-	(62)
Sale of investment in Charter REIT	7	8,768	-
Payment of issue costs to C.A. Bancorp Canadian Realty Finance Corporation	8	-	(18)
Class A Share distributions received from C.A. Bancorp Canadian Realty Finance Corporation	8	734	735
Principal repayment on note payable to C.A. Bancorp Canadian Realty Finance Corporation	8	(204)	(453)
Other corporate investments		-	296
Purchase of capital assets		(9)	(151)
Disposal of capital assets		2	126
Cash flows from (used in) investing activities in continuing operations		31,706	(2,594)
<b>CASH FLOWS FROM FINANCING ACTIVITIES IN CONTINUING OPERATIONS</b>			
Common shares repurchased	15	(30,522)	(506)
Cash flows used in financing activities in continuing operations		(30,522)	(506)
Cash flows used in continuing operations		(3,044)	(9,306)
Cash flows from discontinued operating activities		-	-
Cash flows from discontinued investing activities		-	18,722
Cash flows from discontinued financing activities		-	-
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,044)</b>	<b>9,416</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>11,114</b>	<b>1,698</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 8,070</b>	<b>\$ 11,114</b>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>			
Cash and cash equivalents from continuing operations		\$ 8,070	\$ 11,114
Cash and cash equivalents from discontinued operations		-	-
		\$ 8,070	\$ 11,114
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income taxes paid		\$ 86	\$ 235
Interest paid		\$ 104	\$ 162

The accompanying notes are an integral part of these consolidated financial statements.

# **C.A. BANCORP INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2010**

**(in thousands of dollars except per share amounts or unless otherwise stated)**

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### **1. ORGANIZATION**

C.A. Bancorp Inc. (“C.A. Bancorp” or the “Company”) is a publicly traded Canadian merchant bank and alternative asset manager that provides investors with access to a range of a private equity and other alternative asset class investment opportunities. The Company is currently implementing its previously announced Realization Strategy (defined herein).

The Company’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “BKP”.

The Company’s wholly owned subsidiary C.A. Bancorp Ltd. (“CABL”) is licensed as an Investment Fund Manager, a Portfolio Manager and an Exempt Market Dealer with the Ontario Securities Commission. The Company’s wholly-owned subsidiary C.A. Bancorp Realty Finance Inc. is registered as a Mortgage Broker (License Number 10819) with the Financial Services Commission of Ontario.

Following the expiry of a hostile take-over bid in February, 2010 and the conclusion of a strategic review process undertaken in response, the Company’s Board of Directors (the “Board”) announced in its Directors’ Circular dated June 3, 2010, that it had unanimously determined that it was in the best interests of the Company for the shareholders to have the opportunity to choose between two options, specifically: (i) acceptance of a second take-over bid; or (ii) maintenance of their interests in the Company with the Board’s commitment that it would implement a realization strategy under which the Company would no longer implement its stated business objective, would seek opportunities to monetize its existing assets and would distribute any realized cash to shareholders with a view to ultimately dissolving the Company (the “Realization Strategy”). The second take-over bid expired on August 3, 2010, and the Company immediately began to implement the Realization Strategy. The Company disposed of a number of its assets and as it advanced a realization strategy with respect to its equity investee during the fourth quarter of 2010, the Company implemented the liquidation basis of accounting at the beginning of October 2010.

In light of the Realization Strategy, the Company is pursuing opportunities to accelerate the realization dates for its assets where it is in the best interests of the Company to do so and explore and develop further opportunities to do so. The Company has also taken steps to minimize expenses, and is exploring more cost effective operational methods and structures to further reduce operating expenses.

As a result of the Company’s adoption of the Realization Strategy and the progress made as at December 31, 2010, the Company has adopted the liquidation basis of accounting effective October 1, 2010. This basis of accounting was considered appropriate as, among other things, liquidation of the company is probable and net realizable values of assets are reasonably determinable. Under this basis of accounting, assets are valued at their net realizable values and liabilities are stated at their estimated settlement amounts.

### **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

These consolidated financial statements (“Financial Statements”) have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) using the liquidation basis of accounting which has been adopted effective October 1, 2010, and as a result has impacted the presentation of the consolidated balance sheet as at December 31, 2010. The conversion from going concern to liquidation basis of accounting required management to make significant estimates and judgements to record assets at estimated realizable value and liabilities at estimated settlement amounts. These estimates are subject to change based on the timing of the potential realization of assets and changes to the valuations of assets.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2010

(in thousands of dollars except per share amounts or unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

The significant accounting policies used for the liquidation basis of accounting are as follows:

(a) *Carrying values of assets*

The carrying values of accounts receivable, prepaid expenses and other assets, loans receivable, intangibles and capital assets, future income tax assets and the Company's investment in C.A. Bancorp Canadian Realty Finance Corporation are stated at their net realizable values. The carrying values of publicly traded investments are based on the last bid price of the underlying security on December 31, 2010.

The carrying values of the private equity investments are arrived at using a number of valuation methodologies to arrive at the net realizable values including looking to prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as multiples of EBITDA and discounted cash flow analysis. The most appropriate method to arrive at the net realizable value is chosen on an investment by investment basis. Any sale, size, control, liquidity or other discounts or premiums on the investment are considered by management in the determination of the net realizable value.

The process of valuing private equity investments for which no published market prices exists is based on inherent uncertainties and the resulting net realizable values may differ from that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may ultimately be sold. These differences could be material to the realizable value of the private equity investments.

(b) *Carrying values of liabilities*

The carrying values of the liabilities are stated at their estimated settlement amounts.

(c) *Accrued liquidation costs*

Liquidation costs including incremental employee costs and severance, overheads, lease expenses and realization costs that are directly related to the implementation of the Realization Strategy have been estimated and accrued in the Financial Statements.

(d) *Revenue recognition*

Interest income is recognized using the accrual basis of accounting. Investment income is recorded on the ex-dividend/ex-distribution date.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010**  
**(in thousands of dollars except per share amounts or unless otherwise stated)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

**The following accounting policies are applicable to both the liquidation basis of accounting and the going concern basis of accounting that was used prior to October 1, 2010.**

*(e) Principles of consolidation*

C.A. Bancorp Inc.'s ("C.A. Bancorp" or the "Company") Financial Statements as at December 31, 2010 include the accounts of its wholly-owned subsidiaries:

- C.A. Bancorp Ltd. ("CABL")
- C.A. Realty Management Inc. ("Realty Management")
- C.A. Bancorp Realty Finance Inc.

The Company's Financial Statements also include:

(i) the results of operations of C.A.B. Barlow Holdings Corp., a holding company for the Company's 85% interest in Aventine Management Group Inc. (formerly, Barlow Capital Management Inc.) ("Aventine"), from the beginning of the year until the date of change to the liquidation basis of accounting on October 1, 2010, where this investment was written off.

(ii) the results of operations of its wholly-owned subsidiary C.A. Bancorp Telecom Inc. ("Telecom Inc.") until the date of sale on August 24, 2010.

(iii) the results of operations of C.A. Bancorp Financial Corp. and its wholly-owned subsidiaries AgriFinancial Canada Corp. and AgriFinancial Leasing Inc. (collectively "AgriFinancial") from the beginning of 2009 until the date of sale on January 30, 2009. AgriFinancial is classified as discontinued operations.

In addition, the Company proportionately consolidated the accounts of International Infrastructure L.P., a joint-venture with Sentry Select Capital Corp. ("Sentry Select") up until August 20, 2009 at which point all cash was distributed from the joint-venture back to the Company and Sentry Select. International Infrastructure L.P. was dissolved effective October 7, 2009.

Intercompany transactions and balances have been eliminated in these Financial Statements.

*(f) Cash and cash equivalents*

Cash and cash equivalents are comprised of cash held at the bank. The Company had no cash equivalents.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2010

(in thousands of dollars except per share amounts or unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

#### (g) Revenue recognition

##### (i) Asset management fees

Asset management fees are recorded as revenue and recognized on an accrual basis.

##### (ii) Other commission and fees

Deal fees or work fees are recognized when the engagement services have been fully completed and management is assured of their realization. Mortgage broker commissions are recognized when management is assured of their realization. Any commissions paid to employees as a result of commissions generated for the Company are included in general and administration expense.

#### (h) Incentive stock options

The Company has an incentive stock option plan (the "Plan") as described in Note 14. The Company follows the fair value method of accounting for the expense associated with the Plan, whereby an estimate of the fair value of the stock options granted is measured and recorded as an expense over the vesting period or at the date of grant if options vest immediately, with the related offset recorded as shareholders' equity. The effect of actual forfeitures of previously granted options is recognized as they occur. Any consideration paid to the Company with respect to the exercise of stock options is credited to share capital. For the purpose of accounting for incentive stock options, directors, officers and direct employees of the Company are considered employees and other parties are considered non-employees.

#### (i) Income taxes

The Company uses the asset and liability method to provide for income taxes on all transactions recorded in the Financial Statements. The asset and liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference and unused losses, as applicable, at substantively enacted tax rates expected to be in effect when the assets are realized or the liabilities are settled. A valuation allowance is established to reduce future income tax assets to the amount that is more likely than not to be realized.

#### (j) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding for the period. The treasury stock method is used to determine diluted earnings (loss) per share.

#### (k) Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used in the valuation of loans, investments in private entities and intangible assets, the allocation of purchase price to intangible assets and goodwill, the impairment of assets, loan provisions, useful life for amortization, calculation of taxes, earnings per share and the calculation of the fair value of stock options and other estimates. Management has estimated the costs anticipated to wind-up the Company. Actual results could differ from these estimates.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2010

(in thousands of dollars except per share amounts or unless otherwise stated)

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

**The following accounting policies were used by the company to prepare its financial statements prior to the liquidation basis of accounting being adopted on October 1, 2010.**

#### *(1) Financial Instruments*

Financial assets are classified based on management's intentions as available-for-sale, held-to-maturity, held-for-trading or as loans and receivables. All financial assets are required to be carried at fair value on the consolidated balance sheets, except for loans and receivables and held-to-maturity investments which are carried at amortized cost using the effective interest rate method and except for equity instruments whose fair value cannot be reliably measured which is measured at cost. The Company does not have any equity instruments whose fair value cannot be reliably measured.

Held-for-trading financial assets include financial assets purchased for sale in the near term and financial assets designated as held-for-trading under the fair value option and are reported at fair value. The Company has classified all investments in options, convertible debentures and warrants as held-for-trading. All other investments which are held-for-trading have been designated as such by the Company. Realized and unrealized gains and losses on financial assets are recorded as net results of investments. Dividend and interest income accruing on financial assets is recorded in interest and investment income.

Available-for-sale financial assets are measured at fair value with the difference in fair value and its amortized cost recognized in other comprehensive income. Purchase premiums and discounts are amortized over the life of the available-for-sale financial asset and are recognized in interest and investment income using the effective interest method. At each reporting date, and more frequently when conditions warrant, the Company evaluates its available-for-sale financial assets with unrealized losses to determine whether these are other-than-temporary. This determination is based on consideration of several factors including: i) the length of time and extent to which the fair value has been less than its amortized cost; ii) the severity of the impairment; iii) the cause of the impairment and the financial condition and near-term prospects of the issuer; and iv) our intent and ability to hold the financial asset until its fair value recovers. If the Company's assessment indicates that the impairment in value is other-than-temporary, or the Company does not have the intent and ability to hold the financial asset until its fair value recovers, the financial asset is written down to its current fair value, and a loss is recognized on the statement of operations.

Held-to-maturity investments are debt securities where the Company has the intention and the ability to hold the investment until its maturity date. These investments are carried at amortized cost using the effective interest method. Interest income and amortization of premiums and discounts are recorded in interest and investment income. Held-to-maturity investments and loans and receivables are assessed for impairment.

All financial liabilities must be classified as either held-for-trading or other financial liabilities. Financial liabilities that are held-for-trading are required to be carried at fair value, whereas all other financial liabilities are carried at amortized cost using the effective interest rate method.

For the years ended December 31, 2010 and 2009, comprehensive loss is the same as net loss.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2010**  
**(in thousands of dollars except per share amounts or unless otherwise stated)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

*(m) Loans and other receivables*

Loans and receivables are recorded at amortized cost using the effective interest method. Management has determined that the amortized cost approximates the net realizable value. Loans are subject to periodic impairment review and are classified as impaired when there is no longer reasonable assurance of full and timely collection of principal and interest.

*(n) Publicly traded investments*

Publicly traded investments are designated as held-for-trading.

Publicly traded investments are carried at fair value. The closing bid prices are used in determining the fair value of individual investments held.

The Company records security purchases and sales on a trade date basis. Purchases or sales that have not settled at period end are recorded as "Due from/to broker".

*(o) Investments in private entities*

Investments in debentures were classified as held-to-maturity and were initially valued at fair value and thereafter carried at amortized cost with interest recognized using the effective interest method.

Common shares are designated as held-for-trading and are recorded at their net realizable values.

Common shares which are considered financial instruments and investments in preferred shares are designated as held-for-trading or available-for-sale depending on whether fair values are reliably measurable. Where fair values are reliably measurable, equity investments will be designated as held-for-trading and initially valued at fair value. Subsequently, carrying values will be adjusted to fair value. Where fair values are not reliably measurable, equity investments will be classified as available-for-sale and initially valued at estimated fair value and thereafter carried at cost.

Common shares where the Company is deemed to exercise significant influence in the investee companies are accounted for using the equity method.

Options and warrants to purchase equity investments are classified as held-for-trading and are carried at fair value.

*(p) Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities, due to broker, notes payable and unsecured debt are classified as other liabilities, all of which are carried at amortized cost. Management has determined that the amortized cost approximates net realizable values.

*(q) Revenue recognition*

*(iii) Interest and investment income*

Interest income is recognized at the effective interest rate. Investment income is recorded on the ex-dividend/ex-distribution date.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

#### (r) Capital assets

As at December 31, 2010, capital assets are recorded at their net realizable values.

Prior to October 1, 2010, depreciation and amortization of capital assets was provided on a straight-line basis as follows:

Furniture	-	3 to 5 years
Computer equipment	-	3 years

Impairment is tested on an annual basis, or when events occur which indicate possible impairment.

#### (s) Intangible assets

Intangible assets with an indefinite life are accounted for at cost and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess.

Other intangible assets are accounted for at cost and are amortized over their estimated useful life (if applicable) using the straight-line method.

#### (t) Future Accounting Changes

The Canadian Institute of Chartered Accountants has announced that Canadian GAAP for publicly accountable enterprises will be replaced with IFRS over a transition period expected to end in 2011. Management is currently evaluating the impact of IFRS on the Company's financial statements.

### 3. CASH AND CASH EQUIVALENTS

As at December 31, 2010, the Company held \$8,070 (December 31, 2009 – \$11,114) in cash including overnight deposits at Royal Bank of Canada and Canaccord Capital Inc.

# C.A. BANCORP INC.

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### 4. PUBLICLY TRADED INVESTMENTS

Publicly traded investments consist of the following:

Industry Grouping	December 31, 2010			December 31, 2009		
	Cost	Net Realizable Value	Unrealized Loss	Cost	Fair Value	Unrealized Loss
Industrials	\$ -	\$ -	\$ -	\$ 3,162	\$ 699	\$ (2,463)
Financial Services	83	72	(11)	2,151	1,019	(1,132)
<b>Total</b>	<b>\$ 83</b>	<b>\$ 72</b>	<b>\$ (11)</b>	<b>\$ 5,313</b>	<b>\$ 1,718</b>	<b>\$ (3,595)</b>

The Company held one position (December 31, 2009 – five positions) in its publicly traded investment portfolio as at December 31, 2010 which is carried at a net realizable value of \$72 (December 31, 2009 – \$1,718). The largest position in the portfolio at December 31, 2009 was \$699. The average investment size in the portfolio at December 31, 2009 was \$344.

A 10% price move on the entire portfolio would result in an estimated pre-tax gain or loss of approximately \$7 (December 31, 2009 - \$172).

### 5. LOANS RECEIVABLE

#### a) Composition of loans receivable

Loans receivable are comprised of the following:	December 31, 2010		December 31, 2009	
	Carrying Value	Estimated Realizable Value	Carrying Value	Estimated Fair Value
Other term loans	\$ 26	\$ 26	\$ 58	\$ 58
	26	26	58	58
Less: allowance for impaired loans	(2)	(2)	-	-
	<b>\$ 24</b>	<b>\$ 24</b>	<b>\$ 58</b>	<b>\$ 58</b>

#### b) Allowance for impaired loans

The change in the allowance for impaired loans for the period is as follows:

Term loans	For the year ended December 31,	
	2010	2009
Allowance, beginning of year	\$ -	\$ -
Provision	21	17
Write-offs	-	-
Recoveries	(19)	(17)
<b>Allowance, end of year</b>	<b>\$ 2</b>	<b>\$ -</b>

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### 6. INVESTMENTS IN PRIVATE ENTITIES

Financial Instrument	Maturity Date	December 31, 2010			
		Face/Contractual Value	Cost	Estimated Realizable Value	Unrealized Gain (Loss)
<b>High Fidelity HDTV Inc.</b>					
Common Shares	n/a	\$ -	\$ 4	\$ 25	\$ 21
Warrants	n/a	-	546	4,149	3,603
Convertible Debenture	Dec-12	1,500	1,487	1,926	439
		<u>1,500</u>	<u>2,037</u>	<u>6,100</u>	<u>4,063</u>
<b>Salbro Bottle Group</b>					
Debenture	Feb-12	4,000	4,000	4,000	-
Warrants	n/a	-	580	400	(180)
		<u>4,000</u>	<u>4,580</u>	<u>4,400</u>	<u>(180)</u>
<b>Digital Payment Technologies Corp</b>					
Debenture	Oct-11	6,000	6,000	6,000	-
PIK Interest	Oct-11	528	528	528	-
Warrants	n/a	-	1,164	2,500	1,336
		<u>6,528</u>	<u>7,692</u>	<u>9,028</u>	<u>1,336</u>
<b>Barrett Xplore Inc.</b>					
Common Shares	n/a	-	1,225	1,225	-
		<u>-</u>	<u>1,225</u>	<u>1,225</u>	<u>-</u>
<b>Total</b>		<b>\$ 12,028</b>	<b>\$ 15,534</b>	<b>\$ 20,753</b>	<b>\$ 5,219</b>

Financial Instrument	Classification	Maturity Date	December 31, 2009			
			Face/Contractual Value	Cost	Carrying Value	Unrealized Gain (Loss)
<b>High Fidelity HDTV Inc.</b>						
Debenture	Held-to-Maturity	Jul-10	\$ 2,226	\$ 2,135	\$ 2,135	\$ -
PIK Interest	Held-to-Maturity	Jul-10	408	408	408	-
Common Shares	Held-for-Trading	n/a	-	4	14	10
Warrants	Held-for-Trading	n/a	-	546	2,486	1,940
Convertible Debenture	Held-for-Trading	Dec-12	1,500	1,487	1,487	-
			<u>4,134</u>	<u>4,580</u>	<u>6,530</u>	<u>1,950</u>
<b>Birmingham Foundation Solutions</b>						
Preferred Shares	Held-for-Trading	n/a	9,000	8,148	9,064	916
Common Shares	Equity Accounting	n/a	-	1,852	2,322	470
			<u>9,000</u>	<u>10,000</u>	<u>11,386</u>	<u>1,386</u>
<b>Windward Telecom Inc.</b>						
Common Shares	Equity Accounting	n/a	-	710	350	(360)
Promissory Note	Held-to-Maturity	Demand	122	127	122	(5)
			<u>122</u>	<u>837</u>	<u>472</u>	<u>(365)</u>
<b>Kingswood Drive Kitchener Limited Partnership</b>						
Partnership Units	Held-for-Trading	n/a	-	6,000	6,300	300
			<u>-</u>	<u>6,000</u>	<u>6,300</u>	<u>300</u>
<b>Salbro Bottle Group</b>						
Debenture	Held-to-Maturity	Feb-12	4,000	3,631	3,631	-
Warrants	Held-for-Trading	n/a	-	580	498	(82)
			<u>4,000</u>	<u>4,211</u>	<u>4,129</u>	<u>(82)</u>
<b>Everus Communications Inc.</b>						
DIP Facility	Loans	Demand	267	267	267	-
Debenture	Available-for-Sale	Jun-10	5,000	4,444	615	(3,829)
PIK Interest	Available-for-Sale	Jun-10	851	238	238	-
Warrants	Held-for-Trading	n/a	-	644	-	(644)
Other Expenses	Held-for-Trading	n/a	-	400	-	(400)
			<u>6,118</u>	<u>5,993</u>	<u>1,120</u>	<u>(4,873)</u>
<b>Digital Payment Technologies Corp</b>						
Debenture	Held-to-Maturity	Oct-11	6,000	5,166	5,166	-
PIK Interest	Held-to-Maturity	Oct-11	251	251	251	-
Warrants	Held-for-Trading	n/a	-	1,164	2,300	1,136
			<u>6,251</u>	<u>6,581</u>	<u>7,717</u>	<u>1,136</u>
<b>Total</b>			<b>\$ 29,625</b>	<b>\$ 38,202</b>	<b>\$ 37,654</b>	<b>\$ (548)</b>

# C.A. BANCORP INC.

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### 6. INVESTMENTS IN PRIVATE ENTITIES (continued)

#### (a) *High Fidelity HDTV Inc. ("High Fidelity")*

High Fidelity creates specialty television channels in digital high-definition format and distributes its programming through major cable and satellite companies such as Bell TV, Rogers Cable, Shaw Direct, Shaw Cable, Cogeco and Telus Optik TV.

##### (i) *Nature and History of Transactions*

On July 4, 2007, the Company invested \$2,750 in High Fidelity along with \$1,250 by the Sentry Select Total Strategy Fund ("Total Strategy Fund"). For its \$2,750 the Company received a debenture, common shares, warrants to purchase common shares, and an equity option from High Fidelity. On March 6, 2009, the Company purchased Total Strategy Fund's \$1,250 investment in High Fidelity at cost plus accrued contractual amounts owing. At the time, the additional \$1,250 brought the Company's total cash investment in High Fidelity to \$4,000.

On August 11, 2009, the Company invested an additional \$1,500 in High Fidelity by way of a convertible debenture. High Fidelity used the investment to repay \$1,500 of the existing debenture which had a face value of \$3,976. Concurrent with these transactions, the equity option was eliminated and the Company's equity interest in High Fidelity increased from 10% to 13% by way of warrants. The convertible debenture converts into 6% of High Fidelity's common shares and was classified as held-for-trading and fair valued at \$1,487.

In April 2010, High Fidelity fully repaid the principal amount outstanding together with all interest owed under the original debenture issued by the Company in 2007.

As at December 31, 2010, the Company's total investment in High Fidelity consists of a convertible debenture of \$1,500 paying a 7% cash coupon and which is convertible into 6% of High Fidelity's equity with a net realizable value of \$1,926 (December 31, 2009 – \$1,487) and warrants and common shares with fair values of \$4,149 and \$25, respectively (December 31, 2009 – \$2,486 and \$14, respectively). All instruments are measured at net realizable value.

##### (ii) *Valuation and Assumptions*

The original fair value allocation of the equity component of the investment was calculated based on the present value of the estimated enterprise and equity values of High Fidelity in 2010 (the maturity date for the debenture) assuming a discount rate of 45%. The 2010 enterprise and equity value was estimated based on existing earnings and subscribers of High Fidelity at the time of the Company's investment, an estimate of growth in subscribers and earnings and assumptions around exit multiples based on comparables (with adjustments where the Company believed adjustments were needed based on differences in High Fidelity's business model vs. those of the comparables).

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### 6. INVESTMENTS IN PRIVATE ENTITIES (continued)

#### (a) High Fidelity HDTV Inc. (“High Fidelity”) (continued)

Since the time of the Company’s original investment in High Fidelity, the Company has moved, as its primary valuation method, to a valuation model commonly referred to as an “earnings approach” where the Company uses public and private comparables (where available) to derive a multiple it will use to apply against an earnings figure such as earnings before interest, taxes, depreciation and amortization (“EBITDA”). This valuation method is more widely used and is a better reflection of the value of the business as public comparable companies are traditionally valued on a multiple of EBITDA. The chosen enterprise value/EBITDA multiple is typically below the average of comparables surveyed to recognize the Company’s minority equity position and the fact that High Fidelity is a private company. The EBITDA figure is normalized to adjust for any unusual or one-time items and the Company uses a forecasted EBITDA for the current fiscal year. High Fidelity’s fiscal year ends in August.

The key valuation assumption is the multiple used. A change in the EBITDA multiple factor of +/- 1.0 would result in an aggregate change in the carrying values of the warrants, common shares and convertible debenture of approximately +/- \$1.0 million.

For the year ended December 31, 2010, the Company recognized adjustments to net realizable value of \$11 on the common shares, \$1,663 on the warrants, and \$439 on the convertible debenture (year ended December 31, 2009 – fair value adjustments of \$9 on the common shares, \$1,747 on the warrants, and \$10 on the equity options, respectively).

For the year ended December 31, 2010, the Company recognized investment income on the debenture and convertible debenture of \$249 (year ended December 31, 2009 – \$567).

#### (b) Bermingham Foundation Solutions (“Bermingham”)

On August 26 2010, the Company completed the disposition of its interest in Bermingham. The Company completed the sale for cash proceeds of \$11,500 recognizing a change in unrealized loss of \$916 offset by a realized gain of \$915 for the year ended December 31, 2010.

#### (c) Windward Telecom Ltd. (“Windward”)

On August 24, 2010, the Company completed the disposition of its wholly-owned subsidiary Telecom Inc. which held its interest in Windward. Cash proceeds totaled \$160 of which \$11 was allocated to the common shares of Telecom Inc. resulting in the Company recognizing a realized loss of \$259 for the year ended December 31, 2010. The remaining \$149 was for repayment of a promissory note receivable from Windward.

#### (d) Kingswood Drive Kitchener Limited Partnership (“Kingswood”)

On August 26 2010, the Company announced the disposition of its interests in Kingswood. The Company completed the sale for cash proceeds of \$6,700 of which \$6,100 was for the Company’s equity investment which resulted in a change in unrealized loss of \$300 offset by a realized gain of \$100 for the year ended December 31, 2010. The remaining \$600 was for repayment of the mortgage investment which was originally funded in January 2010.

# C.A. BANCORP INC.

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### 6. INVESTMENTS IN PRIVATE ENTITIES (continued)

#### (e) *Salbro Bottle Group ("Salbro")*

Salbro Bottle Group ("Salbro") is a manufacturer and distributor of packaging components, specializing in glass and plastic bottles.

#### (i) *Nature and History of Transactions*

On February 29, 2008, the Company advanced \$3,600 to the privately held Salbro group of companies by way of debt and equity. The Company's investment was structured as a secured debenture paying 12% cash interest and nominal cost warrants providing the Company with a base 12.5% equity interest. The equity interest is designed to give the Company a total internal-rate-of-return ("IRR") of 23% when considering the cash flows received on the maturity of the debenture, the cash interest received as well as the monetization of the warrants (equity interest).

The initial \$3,600 cash investment was allocated to the securities received based on the estimated fair value of each security. The debenture was originally fair valued using a discounted cash flow analysis with an effective discount rate of 18% and was classified as held-to-maturity.

The equity was designated as held-for-trading and was originally fair valued using a 45% per annum discount rate on the projected enterprise value in four years. The projected enterprise value was based on forecasted EBITDA.

On March 6, 2009, the Company purchased an additional \$400 investment in Salbro from Total Strategy Fund at face value plus accrued contractual amounts owing. The investment was allocated as \$353 to debenture and \$47 to equity. The additional \$400 increased the Company's total invested capital in Salbro to \$4,000.

#### (ii) *Valuation and Assumptions*

The Company has performed an analysis that is focused on Salbro's ability to repay and repurchase (either as a going concern refinancing or on a liquidation basis) the Company's investment (both the debenture and warrants). Different asset valuation assumptions are used in these analyses. A percentage change in the assumed valuations would generally correspond to a similar percentage change in the Company's combined carrying value of the debenture and the equity (warrants).

As a result of the conversion to the liquidation basis of accounting, the debenture is reflected at the net realizable value. The Company recognized an adjustment to net realizable value of \$215 on the debenture which was recorded in interest income for the year ended December 31, 2010 (year ended December 31, 2009 – fair value adjustment of \$nil). The Company also recognized an adjustment to net realizable value of \$(98) on the warrants for the year ended December 31, 2010 (year ended December 31, 2009 – fair value adjustment of \$(56)).

For the year ended December 31, 2010, the Company recognized investment income on the Salbro debenture of \$889 which includes cash interest income as well as the amortization of the discount including the adjustment of \$215 described above (year ended December 31, 2009 – \$598).

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 6. INVESTMENTS IN PRIVATE ENTITIES (continued)

#### (f) *Digital Payment Technologies Corp. ("DPT")*

DPT develops, sells and supports electronic parking solutions for the collection of parking revenues and management of parking operations for both the on-street and off-street parking markets.

#### (i) *Nature and History of Transactions*

The Company advanced the following funds to DPT totaling \$6,000:

- October 31, 2008 – \$3,000
- November 26, 2008 – \$500
- February 5, 2009 – \$1,750
- May 25, 2009 – \$750

In return for the \$6,000 investment, the Company received a debenture with a face value of \$6,000 which pays cash interest of 8% per annum, interest paid-in-kind of 4% per annum and warrants providing 35% equity interest in DPT.

#### (ii) *Valuation and Assumptions*

The \$6,000 investment was allocated to the securities received based on the estimated fair value of each security at the time of closing. The debenture was originally fair valued using a discounted cash flow analysis with an effective discount rate of 20% and was classified as held-to-maturity.

The equity was classified as held-for-trading and originally fair valued using a 45% per annum discount rate on the projected enterprise value in 2012.

The Company estimates the enterprise value of DPT based on applying an enterprise value/revenue multiple and an enterprise value/EBITDA multiple to an average of trailing and forecasted revenue and EBITDA figures, respectively. Where the Company uses public comparables to derive a multiple it will use to apply against a revenue figure and EBITDA figure, the multiple chosen is typically below the average comparables surveyed to recognize the Company's minority equity position and the fact that DPT is a private company.

The key valuation assumption is the multiple used. For example, a change in the EBITDA multiple factor of +/- 1.0 would result in an aggregate change in the carrying values of the equity (warrants) of +/- \$0.8 million.

As a result of the conversion to the liquidation basis of accounting the debenture is now reflected at net realizable value. The Company recognized an adjustment to net realizable of \$419 on the debenture which was recorded in interest income for the year ended December 31, 2010 (year ended December 31, 2009 – fair value adjustment of \$nil). The Company also recognized an adjustment to net realizable value of \$200 on the warrants for the year ended December 31, 2010 (year ended December 31, 2009 – fair value adjustment of \$1,162).

For the year ended December 31, 2010, the Company recognized investment income on the DPT debenture of \$1,590 which includes cash and paid-in-kind interest income as well as the amortization of the discount including the adjustment of \$419 described above (year ended December 31, 2009 – \$975).

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**6. INVESTMENTS IN PRIVATE ENTITIES (continued)**

(g) *Disposition of interest in Everus Communications Inc. (“Everus”) and Investment in Barrett Xplore Inc. (“BXI”)*

In March 2010, BDO Canada Limited (“BDO”) completed the sale of substantially all the assets and business of Everus to BXI. The transaction represented the culmination of a marketing and sales effort conducted by BDO, in its capacity as court appointed interim receiver of all the assets, undertakings and properties of Everus.

The Company, as senior secured creditor of Everus, received a convertible note valued at \$1,180 as consideration. The note was convertible into BXI common shares within twelve months from issuance. On August 10, 2010 the convertible note along with \$45 payment-in-kind interest was converted into common shares of BXI.

The Company’s equity investment in BXI is now reflected at the net realizable value and is fair valued at a discount to a future estimated price per common share of BXI.

**7. INVESTMENT IN CHARTER REIT**

On June 4, 2010, the Company completed the disposition of its units in Charter REIT (now Partners REIT) to IGW Public Limited Partnership, an affiliate of League Asset Corp. at a price of \$1.45 per unit. The sale yielded gross proceeds to the Company of approximately \$8,768 and resulted in a gain of \$2,098.

In connection with the sale, the management agreement dated March 27, 2007 between Charter REIT and Realty Management, a wholly-owned subsidiary of the Company, was terminated. The Company’s severance cost in connection with the termination of the management agreement was approximately \$685.

From March 2008 until April 2009 the Company elected with respect to 18% of its Charter REIT units, to participate in Charter REIT’s distribution reinvestment plan (“DRIP”). As a result, the Company received 81,642 units in lieu of cash in 2009.

In accordance with the equity method of accounting for long-term investments, equity loss adjustments (“equity pick-up”) were taken for the Company’s pro-rata portion of Charter REIT’s net loss and for distributions received. The following table summarizes the Company’s transactions in Charter REIT for the last two years:

	Carrying Value	Units held/purchased by C.A. Bancorp	Carrying Value per Unit
As at December 31, 2008	\$ 8,948	5,965,453	\$ 1.50
Participation in Charter REIT DRIP	62	81,642	0.01
Equity pick-up	(542)	-	(0.09)
Distributions received from Charter REIT	(966)	-	(0.16)
<b>As at December 31, 2009</b>	<b>\$ 7,502</b>	<b>6,047,095</b>	<b>\$ 1.24</b>
<b>Equity pick-up</b>	<b>(429)</b>	<b>-</b>	<b>(0.07)</b>
<b>Distributions received from Charter REIT</b>	<b>(403)</b>	<b>-</b>	<b>(0.07)</b>
<b>Sale of Charter REIT Units</b>	<b>(6,670)</b>	<b>(6,047,095)</b>	<b>(1.10)</b>
<b>As at December 31, 2010</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>

For the year ended December 31, 2010, the Company recognized asset management fees from Charter REIT of \$185 (year ended December 31, 2009 – \$439).

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**8. C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION (“CRFC”)**

*(a) CRFC Preferred Share Offering and the Company’s Commitment*

CRFC completed a public offering of Preferred Shares in February 2008 (the “Preferred Share Offering”). The Company subscribed for 766,160 Class A shares in CRFC by way of a private placement contemporaneous with the Preferred Share Offering. The Class A shares are subordinate to the Preferred Shares.

The Company has agreed to subscribe for, or arrange subscriptions for, additional Class A shares of CRFC on a quarterly basis if the face value of the outstanding Preferred Shares in CRFC exceeds the tangible net book value of the Class A shares in CRFC by a ratio of greater than 9 to 1. As at December 31, 2010, the ratio was approximately 1.5 to 1 (December 31, 2009 – 1.3 to 1).

*(b) CRFC Unit Offering*

CRFC completed a public offering of stapled units (“Units”) in September 2008 at a price of \$10.00 per Unit (the “Unit Offering”). Each Unit consisted of one Class A share and one warrant (“Warrant”) to purchase one Preferred Share. The issuance of Class A shares under the Unit Offering came from CRFC’s treasury. Each Warrant entitles the holder to purchase one Preferred Share at a subscription price of \$23.75 at any time on or before 4:00 p.m. (Toronto time) on September 30, 2011. The Company initially subscribed for 200,000 Units.

*(c) The following is a continuity of CRFC’s Class A shares (number of shares) and the Company’s ownership in CRFC:*

	<b>Held by C.A. Bancorp</b>	<b>% of total</b>	<b>Held Publicly by Other Investors</b>	<b>% of total</b>	<b>Total Class A Shares</b>
Balance as at December 31, 2008	966,160	26.8%	2,633,900	-	<b>3,600,060</b>
Repurchased and cancelled under MMPP and NCIB*	-		(329,100)		<b>(329,100)</b>
<b>Balance as at December 31, 2009</b>	<b>966,160</b>	<b>29.5%</b>	<b>2,304,800</b>	<b>70.5%</b>	<b>3,270,960</b>
Repurchased and cancelled under MMPP and NCIB*	-		(208,500)		<b>(208,500)</b>
<b>Balance as at December 31, 2010</b>	<b>966,160</b>	<b>31.5%</b>	<b>2,096,300</b>	<b>68.5%</b>	<b>3,062,460</b>

\*MMPP = Mandatory Market Purchase Plan NCIB = Normal Course Issuer Bid

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**8. C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION (continued)**

*(d) Equity Accounting for Investment*

Prior to the Company's conversion to liquidation accounting, the Company accounted for this investment using the equity method as it exercises significant influence over CRFC.

During the third quarter the Company announced that it had begun implementing the Realization Strategy (refer to Note 1). Furthermore the Class A Shares had traded at a significant and prolonged discount to their net asset value over the previous twelve months. The Company determined that the carrying value of its investment in CRFC based on a range of historical trading prices of CRFC's Class A shares was impaired and as a result, the Company recorded an "other than temporary" impairment loss of \$2,333 in the third quarter 2010.

For the year ended December 31, 2010, the Company recognized carrying value adjustments of \$263 (year ended December 31, 2009 – \$342). These adjustments were recognized into earnings based on the Company's ownership percentage during the periods in which the Company was deemed to have significant influence over CRFC in accordance with the equity method of accounting.

As at December 31, 2010, in accordance with the liquidation basis of accounting, the Company accounts for its investment in CRFC at net realizable value.

	<b>Carrying Value</b>	<b>Carrying Value per Class A Share</b>
As at December 31, 2008	\$ 9,293	\$ 9.62
Equity pick-up	342	0.35
Distributions received from CRFC	(735)	(0.76)
<b>As at December 31, 2009</b>	<b>\$ 8,900</b>	<b>\$ 9.21</b>
<b>Equity pick-up</b>	<b>263</b>	<b>0.27</b>
<b>Distributions received from CRFC</b>	<b>(734)</b>	<b>(0.76)</b>
<b>Other than temporary impairment loss in Q3</b>	<b>(2,333)</b>	<b>(2.41)</b>
<b>Unrealized carrying value adjustment at year end</b>	<b>304</b>	<b>0.31</b>
<b>As at December 31, 2010</b>	<b>\$ 6,400</b>	<b>\$ 6.62</b>

*(e) Management fees and cost recovery*

The Company earns management fees on CRFC and paid Sentry Select, as the investment manager, a portion of its management fees received in the form of investment management fees until September 15, 2009 (see Note 12 – Internalization of Management). For the year ended December 31, 2010, the Company recognized management fees of \$771 (year ended December 31, 2009 – \$869). For the year ended December 31, 2010, \$nil investment management fees were expensed (year ended December 31, 2009 – \$15).

For the year ended December 31, 2010, the Company recognized charges for the recovery of servicing costs on behalf of CRFC of \$92 (year ended December 31, 2009 – \$84).

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### 8. C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION (continued)

#### *(f) Assessment of Fair Value*

The Company's investment in CRFC is carried on the Company's consolidated financial statements at a carrying value of \$6,400 or \$6.62 per Class A share (December 31, 2009 – \$8,900 or \$9.21 per Class A share).

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Carrying Value on Company's financial statements	\$ <b>6.62</b>	\$ 9.21
NAV per CRFC Class A share	\$ <b>9.01</b>	\$ 9.35
Closing TSX Bid Price	\$ <b>6.64</b>	\$ 7.61

As at December 31, 2010, the Company recorded its investment in CRFC at a net realizable value of \$6,400 or \$6.62 per Class A Share based on a conditional offer by Green Tree Capital Management Corp. to purchase the Company's Class A Shares (see Subsequent Events – Note 22). An unrealized carrying value adjustment of \$304 was recognized into income in the fourth quarter 2010.

**C.A. BANCORP INC.**  
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**8. C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION (continued)**

*(g) CRFC Intangible Asset and Note Payable*

In September 2008, in connection with the CRFC Unit Offering, the Company issued a promissory note payable in the amount of \$2,757 to CRFC to repay CRFC for the expenses incurred from the Unit Offering. The promissory note is repayable over seven years at a rate of interest of 6% per annum (the "Note"). An amount corresponding to the original note payable was allocated to intangible assets representing a value for the management and administration agreements between CABL and CRFC (the "CRFC Management Agreements").

In the third quarter, the Company determined that it may not fully benefit from the future expected value of the CRFC Management Agreements and therefore determined that the value of its intangible asset was impaired. Based on its intangible asset impairment test, in both the third and fourth quarters of 2010, the Company recorded a non-cash impairment charge of \$2,224 on its intangible asset related to the CRFC Management Agreements for the year ended December 31, 2010.

	<u>Intangible Asset</u>	<u>Note Payable</u>
Balance as at December 31, 2008	\$ 2,676	\$ 2,578
Additional issue costs paid during the quarter	18	18
Forgiveness on account of Class A Share repurchases*	(300)	(300)
Principal repayments	-	(471)
<b>Balance as at December 31, 2009</b>	<b>\$ 2,394</b>	<b>\$ 1,825</b>
<b>Forgiveness on account of Class A Share repurchases*</b>	<b>(170)</b>	<b>(170)</b>
<b>Principal repayments</b>	<b>-</b>	<b>(204)</b>
<b>Other than temporary impairment</b>	<b>(2,224)</b>	<b>-</b>
<b>Balance as at December 31, 2010</b>	<b>\$ -</b>	<b>\$ 1,451</b>

\*When CRFC repurchases Class A Shares for cancellation under a mandatory market purchase program or under a normal course issuer bid or if Class A Shares are redeemed, the principal amount outstanding under the Note will be reduced by a percentage of the amount equal to the issue costs attributable to the offering for any Class A Shares so purchased, calculated in accordance with a time factor as set out in the promissory note.

The amount outstanding on the Note as at December 31, 2010 is \$1,451 (December 31, 2009 – \$1,825) of which \$306 is payable within the next year in equal quarterly installments plus accrued interest. The amount of interest accrued and owing at December 31, 2010 is \$nil (December 31, 2009 – \$nil). The following table summarizes the repayments on the Note over the next five years assuming no further forgiveness due to Class A share repurchases or redemptions:

	<b>As at December 31, 2010</b>						
	<b>Within 1 year</b>	<b>Over 1 year to 2 years</b>	<b>Over 2 years to 3 years</b>	<b>Over 3 years to 4 years</b>	<b>Over 4 years to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Note payable to CRFC	\$ 306	\$ 306	\$ 306	\$ 306	\$ 227	\$ -	\$ 1,451

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### 9. CAPITAL ASSETS

Capital assets were recorded at cost less accumulated amortization and provision for impairments, if any. Capital assets were amortized on a straight-line basis over the estimated useful lives of the assets. As at December 31, 2010, the Company recorded into income a write-off of \$89 in net capital assets as a result of the change to the liquidation basis of accounting.

	December 31, 2010			December 31, 2009
	Cost	Accumulated Depreciation	Net Realizable Value	Net Book Value
Computer Equipment	\$ 6	\$ 1	\$ 5	\$ 98
Furniture	17	7	10	56
	\$ 23	\$ 8	\$ 15	\$ 154

### 10. LIQUIDATION COSTS

The Company is required to make significant estimates and exercise judgment in determining accrued liquidation costs. The Company reviewed contractual commitments such as payroll and related expenses, lease termination costs, and professional fees to determine the estimated costs to be incremental and directly incurred as a result of the liquidation. The Company has not accrued the ongoing operating costs that are anticipated to be incurred through the liquidation period such as payroll and related expenses, and other general and administration costs. The following summarizes the costs accrued as at December 31, 2010:

Accrued Liquidation Costs	December 31, 2010
Employee costs	\$ 1,481
Lease and equipment buyouts	239
Realization costs	697
<b>Total</b>	<b>\$ 2,417</b>

### 11. FINANCIAL INSTRUMENTS

At December 31, 2010, the carrying value of all financial instruments was the net realizable value.

At December 31, 2009, the Company classified the significant components of its financial instruments as follows:

a) *Financial instruments – carrying values and fair values:*

Asset (Liability)	December 31, 2009							
	Held for Trading		Available-for-sale (measured at cost)	Loans and receivables/ (other financial liabilities)	Held-to-Maturity	Carrying value	Fair value	
	Classified	Designated						
Cash and cash equivalents	\$ 11,114	\$ -	\$ -	\$ -	\$ -	\$ 11,114	\$ 11,114	
Accounts receivable	-	-	-	1,659	-	1,659	1,659	
Loans receivable	-	-	-	58	-	58	58	
Publicly traded investments	-	1,718	-	-	-	1,718	1,718	
Investments in private entities	6,771	15,378	853	-	11,980	34,982	34,982	
Accounts payable and accrued liabilities	-	-	-	(1,935)	-	(1,935)	(1,935)	
Note payable to CRFC	-	-	-	(1,825)	-	(1,825)	(1,825)	

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**11. FINANCIAL INSTRUMENTS (continued)**

*b) Fair value measurement:*

The Company uses a fair value hierarchy to categorize the inputs used in its valuation of assets and liabilities carried at fair value. The extent of the Company's use of unadjusted quoted market prices (Level 1), models using observable market information as inputs (Level 2) and models using unobservable market information (Level 3) in its valuation of assets and liabilities carried at fair value are as follows:

Asset (Liability)	As at December 31, 2009				Assets/(liabilities) at Fair value
	Fair value measurements using:				
	Level 1	Level 2	Level 3		
Cash and cash equivalents	\$ 11,114	\$ -	\$ -	\$	11,114
Publicly traded investments	1,718	-	-		1,718
Investments in private entities	-	-	23,002		23,002

There were no transfers during the year between levels.

*c) Changes in fair value measurement for instruments categorized in Level 3*

The following table presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy.

December 31, 2009										
Asset	Fair value December 31, 2008	Total unrealized gains included in earnings	Investments in Private Entities	Settlement of investments in Private Entities	Transfers from Held-for-Trading to Equity Accounting	Transfers from Held-to-Maturity into Available-for-Sale	Transfers from Held-to-Maturity into Held-for-Trading	Fair value December 31, 2009	Changes in unrealized gains included in earnings for assets for the year ended December 31, 2009 for positions still held	
Investments in private entities	\$ 18,361	\$ 3,196	\$ 3,199	\$ (50)	\$ (2,557)	\$ 853	\$ -	\$ 23,002	\$	3,196

The change in unrealized gains on investments in private entities are included in net results of investments on the consolidated statements of operations and comprehensive income.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 12. INTERNALIZATION OF MANAGEMENT

The Company was a party to management and administration agreements (the “Management Agreement” and the “Administration Agreement”, respectively and referred to herein collectively as the “Agreements”) with Sentry Select until September 15, 2009, when the Agreements were terminated pursuant a negotiated agreement between the Company and Sentry Select (the “Internalization”). Sentry Select is a privately held company controlled by the Company’s Chairman of the Board and former Chief Executive Officer (resigned effective September 24, 2009).

#### *(a) Fees Paid to Sentry Select under the Agreements*

Under the terms of the Administration Agreement prior to its termination on September 15, 2009, the Company paid Sentry Select a monthly fee of \$40 plus applicable taxes in exchange for the provision of administrative services including accounting and recordkeeping, regulatory reporting and compliance, investor relations, office space, equipment and certain administrative and management personnel, and other administrative and office services.

The Management Agreement engaged Sentry Select to provide investment management services in respect of the Company’s merchant banking business and other investing activities, including searching for, evaluating and screening investment opportunities and conducting due diligence with respect to potential investments, for a quarterly fee of  $\frac{1}{4}$  of 1.50% of financial statement capital until January 31, 2009.

An amendment to the Management Agreement was made between Sentry Select and C.A. Bancorp pursuant to which the management fee was reduced from 1.50% to 1.10% of financial statement capital per year. Sentry Select had previously paid the 0.40% difference to investment dealers as a servicing fee. The servicing fee was terminated resulting in a reduction in management fee, effective February 1, 2009.

#### *(b) Reimbursements made to Sentry Select under the Agreements*

Under the terms of the Administration Agreement, Sentry Select had the ability to seek reimbursement from C.A. Bancorp of the costs of certain additional management personnel by way of written notice, which notice was given to C.A. Bancorp (the “Reimbursement Notice”) on November 1, 2008. As a result of the Reimbursement Notice, \$673 of additional operating expenses were incurred during year ended December 31, 2009.

Similar to the Reimbursement Notice provided under the Administration Agreement on November 1, 2008, Sentry Select provided an additional Reimbursement Notice to C.A. Bancorp in respect of three employees related to the operation of Charter REIT for which Sentry Select had previously paid cash salaries, bonuses and benefits. C.A. Bancorp, through its wholly-owned subsidiary Realty Management, was party to a management agreement with Charter REIT. As a result, \$333 of additional operating expenses were incurred during the year ended December 31, 2009.

#### *(c) Sentry Select Total Strategy Fund*

Effective March 30, 2009, Total Strategy Fund was terminated. C.A. Bancorp Inc. was the manager of Total Strategy Fund and earned management fees and Sentry Select received fees as investment manager of Total Strategy Fund, until its termination.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 12. INTERNALIZATION OF MANAGEMENT (continued)

(d) Summary of all fees paid to Sentry Select

The following is a summary of fees paid to Sentry Select for the years ended December 31, 2010 and 2009:

	For the year ended December 31,	
	2010	2009
Internalization termination fee	\$ -	\$ 1,435
Management fees	-	591
Administration fees	-	356
CRFC administration fees (Note 8)	-	151
IT services	103	51
Transition services	-	5
Total Strategy Fund investment management fees	-	9
Total	\$ 103	\$ 2,598

### 13. HOSTILE DEFENCE AND STRATEGIC REVIEW PROCESS

On December 3, 2009, Maxam Acquisition Corp. announced its intention to make a hostile take-over bid (the "Maxam Offer") for the Company. In response to the announcement, the Company engaged legal and financial advisors to assist in responding to the Maxam Offer. The Company's financial advisor provided an opinion that the Maxam Offer was inadequate from a financial point of view to the Company's shareholders. On December 22, 2009, the Company's Board issued a Directors' Circular urging shareholders to reject the Maxam Offer. On January 12, 2010, Maxam extended the Maxam Offer and increased the consideration offered thereunder. On February 2, 2010, the Maxam Offer lapsed. The Company initiated a strategic review process in response to the Maxam Offer (the "Strategic Review Process"). On May 12, 2010, C.A. Bancorp entered into a pre-acquisition agreement (the "Pre-Acquisition Agreement") with 1535633 Alberta Ltd., an affiliate of Century Services LP (together, "Century"), representing the culmination of the Strategic Review Process.

Pursuant to the Pre-Acquisition Agreement, Century agreed to make an offer to acquire all of the issued and outstanding shares of the Company. The Century offer was subject to certain terms and conditions, including acceptance by holders of not less than 66⅔% of the outstanding C.A. Bancorp shares calculated on a fully-diluted basis. John Driscoll, the Chairman of the Company and holder of approximately 13% of the outstanding shares at the time of the offer, agreed to tender his shares to the Century offer.

The Board did not make any recommendation concerning the Century offer to C.A. Bancorp's shareholders. The Board determined that, if the Century offer was not successfully completed, C.A. Bancorp's interests would be best served through the Realization Strategy and the distribution of net proceeds to the Company's shareholders.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 13. HOSTILE DEFENCE AND STRATEGIC REVIEW PROCESS (continued)

Under the Pre-Acquisition Agreement the Company agreed not to solicit competing transactions to the Century offer, and agreed to pay a termination fee of \$1.5 million in certain circumstances including if a superior offer was recommended by the Company's Board which did not occur. The Company also agreed to reimburse Century for certain expenses if the Century offer was not successfully completed in certain circumstances. The Century offer lapsed and the Pre-Acquisition Agreement was terminated by the Company in accordance with its terms in August, 2010.

The Company incurred \$2,286 in respect of costs related to the Maxam Offer, the Strategic Review Process, and the Century offer for the year ended December 31, 2010 (year ended December 31, 2009 – \$753) of which \$nil was payable as at December 31, 2010 (December 31, 2009 – \$547).

In January 2010, the Company amended the employment agreements of certain members of management of C.A. Bancorp and Charter REIT to provide, among other things, (i) that severance entitlements be triggered following a change of control (as defined therein) if the employee was constructively dismissed or terminated; and (ii) that members of management receive a retention bonus of one-third of annual base salary to be paid on the earlier of the date of a change of control or June 6, 2010. The Company paid \$395 related to retention bonuses in 2010 with \$60 accrued and unpaid as at December 31, 2010.

<b>Hostile Defence and Strategic Review Process</b>	<b>For the year ended December 31, 2010</b>	<b>For the year ended December 31, 2009</b>
Legal fees	\$ 854	\$ 190
Financial advisory fees	410	450
Retention bonus	455	-
Expense reimbursement to Century	261	-
Special committee and other director fees	210	20
Information agent fees	82	89
Other expenses	14	4
<b>Total</b>	<b>\$ 2,286</b>	<b>\$ 753</b>

### 14. STOCK BASED COMPENSATION

The Company has a stock option plan (the "Plan") for the benefit of directors, officers and employees ("Employees") and consultants and service providers ("Non-Employees") of the Company. Pursuant to the Plan, the Board may allocate non-transferable options to purchase up to a maximum of 10% of the outstanding common shares of the Company. Options granted pursuant to the Plan are exercisable at a price not less than the market price of the Common Shares on the stock exchange on which such shares are traded less any applicable discounts permitted by the rules of such exchange. The maximum number of common shares which may be reserved for issuance to any one person under the Plan is 5% of the common shares outstanding at the time of grant.

Pursuant to the Plan and approval by the Board on June 22, 2006, the Company granted, to certain Employees and Non-Employees an aggregate of 78,000 (of which 18,000 have been forfeited) options to purchase common shares which may be exercised from issuance at a price of \$3.30 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant and the remaining two-thirds vesting equally on June 22, 2007 and June 22, 2008.

Pursuant to the Plan and approval by the Board on December 22, 2006, the Company granted, to certain Employees and Non-Employees an aggregate of 765,500 options (of which 95,000 have been forfeited) to purchase common shares which may be exercised from issuance at a price of \$3.10 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on December 22, 2007 and December 22, 2008.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 14. STOCK BASED COMPENSATION (continued)

Pursuant to the Plan and approval by the Board on August 21, 2007, the Company granted, to certain Employees and Non-Employees an aggregate of 1,275,000 options (of which 135,000 have been forfeited) to purchase common shares which may be exercised from issuance at a price of \$3.30 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on August 21, 2008 and August 21, 2009.

For the year ended December 31, 2010, the Company recorded a total recovery of \$nil (2009 - total recovery of \$693) in relation to the aforementioned C.A. Bancorp option grants. The recovery was recorded as a result of forfeitures during the year. The fair values of the incentive stock option grants on the date of grant were estimated using a Black-Scholes option pricing model. In determining the fair value of options, management was required to make assumptions that could have a material impact on the valuation. For the purposes of assuming a dividend yield management assumed a rate of 0%. Other assumptions used on the dates of grant including the risk-free rate and the expected volatility are disclosed in the following table which summarizes information about the stock options outstanding as of December 31, 2010:

Optionee Type	# of Optioned Shares Outstanding	Exercisable	Expiry Date	Exercise Price	Risk- Free Rate	Volatility Assumption	Value at Grant
June 22, 2006 Grant							
Employees	5,000	5,000	June 22, 2011	\$ 3.30	4.45%	40%	7
Non-Employees	-	-	June 22, 2011	\$ 3.30	4.45%	40%	-
	5,000	5,000					7
Dec. 22, 2006 Grant							
Employees	180,000	180,000	Dec. 22, 2011	\$ 3.10	3.80%	38%	221
Non-Employees	-	-	Dec. 22, 2011	\$ 3.10	3.80%	38%	-
	180,000	180,000					221
August 21, 2007 Grant							
Employees	375,000	375,000	Aug. 21, 2012	\$ 3.30	4.50%	60%	467
Non-Employees	-	-	Aug. 21, 2012	\$ 3.30	4.50%	60%	-
	375,000	375,000					467
<b>Total All Grants</b>	<b>560,000</b>	<b>560,000</b>					<b>\$ 695</b>

The following table summarizes the Company's stock option activity for the years ended December 31, 2010 and 2009, respectively:

	2010	Weighted Average Exercise Price	2009	Weighted Average Exercise Price
Number outstanding, beginning of year	1,157,500	\$ 3.21	1,890,000	\$ 3.19
Granted	-	-	-	-
Forfeited/cancelled	(597,500)	3.19	(732,500)	3.22
Number outstanding, end of year	560,000	\$ 3.24	1,157,500	\$ 3.21
Exercisable, end of the year	560,000	\$ 3.24	1,157,500	\$ 3.21

As at December 31, 2010, the weighted average contractual remaining life of the options was 1.42 (2009 – 2.36) years.

# C.A. BANCORP INC.

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### 15. SHAREHOLDERS' EQUITY

(a) *Share capital*

Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Class A, Class B and Class C preference shares, issuable in series without nominal or par value.

On April 25, 2008, the Company's shareholders passed a motion to implement a mandatory market purchase plan ("MMPP") pursuant to which, the Company will use its best efforts to purchase for cancellation its common shares if they are offered at a price less than 90% of the net book value per common share on the principal stock exchange on which they are traded, currently the TSX. The obligation is subject to a limit in any calendar quarter of 1.25% of the number of outstanding common shares at the beginning of each quarter. The obligation is also subject to certain conditions to ensure that the marketability of the common shares is not seriously impaired, the Company has adequate liquidity, the Company does not have to liquidate securities other than in an orderly manner, there is no material legal action instituted or threatened that materially adversely affects the Company and that there is no general suspension of trading of the Company's common shares. Since inception and as at December 31, 2009, 1,447,300 common shares have been repurchased and cancelled at an average price of \$1.17 under the MMPP (839,300 were repurchased and cancelled at an average price of \$1.42 in 2008). The MMPP expired at the Company's annual meeting which took place on June 25, 2009.

On August 6, 2010, the Company announced its intention to purchase and cancel up to 1,816,450 of its common shares through a normal course issuer bid ("NCIB") at prevailing market prices during the period from August 10, 2010 to August 9, 2011. A maximum of 14,920 common shares, other than block trade exceptions, may be purchased on any given trading day through the facilities of the Toronto Stock Exchange. Since inception of the NCIB and as at December 31, 2010, 309,900 common shares have been repurchased and cancelled at an average price of \$1.81 per share.

On November 11, 2010, the Company announced the commencement of its substantial issuer bid ("Substantial Issuer Bid") pursuant to which the Company offered to repurchase for cancellation up to \$31 million in value of its outstanding common shares from shareholders. The Substantial Issuer Bid proceeded by way of a modified "Dutch Auction" and the range of Substantial Issuer Bid prices offered was \$1.80 to \$2.10 per common share. The Substantial Issuer Bid expired on December 17, 2010. The Company purchased 14,157,593 common shares, representing 92.7% of the total number of common shares tendered to the offer, at a purchase price of \$2.09 per share for aggregate consideration of \$29.6 million.

The following table summarizes the Company's share capital transactions:

	(000s) Number of common shares	Carrying Value
As at December 31, 2008	27,345	\$ 78,747
Common shares cancelled during the period as a result of:		
Mandatory market purchase program	(608)	(1,751)
As at December 31, 2009	26,737	\$ 76,996
Common shares cancelled during the period as a result of:		
Normal course issuer bid	(310)	(892)
Substantial issuer bid	(14,158)	(40,771)
<b>As at December 31, 2010</b>	<b>12,269</b>	<b>\$ 35,333</b>

# C.A. BANCORP INC.

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### 15. SHAREHOLDERS' EQUITY (continued)

(b) *Contributed surplus*

The following table summarizes the changes in contributed surplus:

	<u>Carrying Value</u>
As at December 31, 2008	\$ 4,408
Net increase related to:	
Stock based compensation	(693)
Mandatory market purchase plan	1,245
As at December 31, 2009	4,960
Net increase related to:	
Normal course issuer bid	332
Substantial issuer bid	10,809
<b>As at December 31, 2010</b>	<b>\$ 16,101</b>

### 16. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated future income tax assets are as follows:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Future income tax assets		
Non-capital loss carryforwards	\$ 3,387	\$ 1,980
Unrealized impairment loss on Charter REIT units	-	827
Deemed capital gain on conversion of Charter shares to Charter REIT units	-	375
Other Charter REIT carrying value adjustments	-	220
Capital loss carryforwards on sale of Charter REIT units	1,180	-
Net unrealized (gain) loss on investments	(23)	777
Capital loss carryforwards on investments	1,064	-
Cumulative eligible capital expenses	63	23
Accrued liquidation costs	683	-
Other	(50)	(10)
	<b>6,304</b>	4,192
Valuation allowance	<b>(6,304)</b>	<b>(3,928)</b>
Net future tax asset	\$ -	\$ 264

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**16. INCOME TAXES (continued)**

	<b>December 31, 2010</b>	December 31, 2009
Future income tax liabilities (all relating to CABL)		
Non-capital loss carryforwards	\$ -	\$ (453)
Net realized loss on investments	-	(109)
Net unrealized loss on investments	-	-
Intangible assets	-	689
Other	-	(82)
	-	45
Valuation allowance	-	110
Net future tax liability	\$ -	\$ 155

As at December 31, 2010, the Company and its subsidiaries had non-capital losses available to be carried forward to offset income in future years of \$13,440. A valuation allowance against the benefit of these losses has been recognized in these Financial Statements. These losses are available to offset future taxable income up to the date of expiry. The losses expire as follows:

Year	
2026	\$ 1,313
2028	2,316
2029	3,454
2030	6,357
	<u>\$ 13,440</u>

The recovery of income taxes differs from the result that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to losses before income taxes are as follows:

	<b>For year ended December 31,</b>	
	<b>2010</b>	2009
Loss before income taxes and non-controlling interest	\$ (5,907)	\$ (4,424)
Combined federal and provincial income tax rate	<b>31.0%</b>	33.0%
Expected recovery for income taxes	<b>(1,831)</b>	(1,460)
Permanent differences	<b>(1,002)</b>	(1,120)
Future tax rate change	<b>611</b>	(10)
Valuation allowance	<b>2,346</b>	4,038
Recognition of previously unrecognized losses	<b>(49)</b>	(1,037)
Prior year adjustments	<b>177</b>	88
Effect of Aventine	<b>(159)</b>	-
Other	<b>6</b>	27
Net tax expense	\$ <b>99</b>	\$ 526
Current tax recovery	\$ <b>(10)</b>	\$ (468)
Future tax expense	<b>109</b>	994
Net tax expense	\$ <b>99</b>	\$ 526

# C.A. BANCORP INC.

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### 17. AVENTINE MANAGEMENT GROUP INC. (“AVENTINE”)

As a result of the Company’s change to the liquidation basis of accounting, an unrealized fair value adjustment of (\$154 ) was recognized into income to bring the net realizable value of the Company’s investment in Aventine to \$nil.

### 18. COMMITMENTS

The future minimum net operating lease payments for premises and equipment are as follows:

	<u>Lease Payments</u>
For the year ended:	
2011	\$ 98
2012	58
2013	57
2014	44
Thereafter	-
<b>Total</b>	<b>\$ 257</b>

As part of its Realization Strategy, the Company reduced its future commitments when it subleased its office space in December 2010.

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**19. SEGMENT DISCLOSURES**

The Company has organized its reporting structure based on the following segments:

- (i) *Financial services* which includes agricultural lending, commercial real estate lending (“CRFC”) and commercial mortgage brokering.
- (ii) *Investing and asset management* which includes private and public entity direct investments (excluding real estate) and asset management activities (excluding real estate management or lending activities).
- (iii) *Real estate which includes real estate equity* (Charter REIT, Kingswood Estates) and real estate management (the management contract with Charter REIT).

	Year ended December 31							
	Financial Services		Investing and Asset Management		Real Estate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Revenues	\$ 234	\$ 158	\$ 4,313	\$ 4,798	\$ 195	\$ 439	\$ 4,742	\$ 5,395
Net results of investments	(3,990)	342	1,658	(967)	1,669	(541)	(663)	(1,166)
Expenses*	(98)	(90)	(9,503)	(8,183)	(385)	(380)	(9,986)	(8,653)
Pre-tax net earnings (loss)	(3,854)	410	(3,532)	(4,352)	1,479	(482)	(5,907)	(4,424)
Net (provision) recovery of income taxes	(49)	(22)	(83)	(540)	33	36	(99)	(526)
Net earnings (loss) before NCI	(3,903)	388	(3,615)	(4,892)	1,512	(446)	(6,006)	(4,950)
Non-controlling interests	-	-	(43)	109	-	-	(43)	109
Net (loss) earnings from continuing operations	(3,903)	388	(3,658)	(4,783)	1,512	(446)	(6,049)	(4,841)
Net earnings from discontinued operations	-	6,963	-	-	-	-	-	6,963
Net earnings (loss)	\$ (3,903)	\$ 7,351	\$ (3,658)	\$ (4,783)	\$ 1,512	\$ (446)	\$ (6,049)	\$ 2,122
Total assets:								
From continuing operations	\$ 6,573	\$ 9,026	\$ 29,474	\$ 48,819	\$ 41	\$ 13,669	\$ 36,088	\$ 71,514
Total assets	\$ 6,573	\$ 9,026	\$ 29,474	\$ 48,819	\$ 41	\$ 13,669	\$ 36,088	\$ 71,514

\* General overhead, Hostile defense and Strategic review process and Liquidation costs have been allocated to Investing and Asset Management.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2010

(in thousands of dollars except per share amounts or unless otherwise stated)

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### 20. RISK MANAGEMENT

#### *Market risk*

The Company is exposed to market risk on its portfolio of publicly traded investments. Sensitivity analysis is provided in Note 4.

The Company does not use any derivatives to hedge its market risk and has no intention to do this for the foreseeable future.

#### *Liquidity risk*

The Company has made investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events. However, such liquidity events are rarely expected in the first two or three years of making the investment. The Company seeks to obtain regular cash flow from these investments through interest payments and/or management fees.

The Company funds itself with operating cash flows and return of capital and capital gains from its investments. Operating cash flows have been sufficient to cover normal operating expenses in the past.

#### *Interest rate sensitivity*

As at and during the year ended December 31, 2010, the Company did not have any significant exposure to interest rate risk as the Company intends to hold the majority of its debt instruments to maturity and therefore, would not be impacted by changes in interest rates.

#### *Credit Risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Company's maximum exposure to credit risk arising from private equity investments is equal to the carrying amount of those investments (see Note 4). The Company also has credit exposure related to overnight deposits placed with the Royal Bank of Canada of \$7.4 million as at December 31, 2010 (December 31, 2009 - \$11.0 million). RBC has a senior debt rating of AA from DBRS.

#### *Foreign Exchange Risk*

The Company does not have significant exposure to foreign exchange risk.

# **C.A. BANCORP INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2010**

**(in thousands of dollars except per share amounts or unless otherwise stated)**

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### **21. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are: (a) to safeguard the Company's ability to continue to execute its Realization Strategy, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and (b) to provide an adequate return to shareholders by seeking returns on investments that are commensurate with the level of risk on the investments.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Company may buy back shares or sell assets.

The Company views all shareholders' equity as capital. The Company is not subjected to any material externally imposed capital requirements.

### **22. SUBSEQUENT EVENTS**

On March 15, 2011 the Company entered into an agreement to sell all of its interests in CRFC to Green Tree Capital Management Corp. ("Green Tree") for an aggregate purchase price of \$6,400 (the "Proposed Transaction"). The purchase price will be satisfied by Green Tree assuming the Company's obligations under the note payable to CRFC, by a promissory note from Green Tree to the Company in the amount of \$1,000 and the remaining balance paid in cash. As part of the Proposed Transaction, the Company will transfer the 966,160 Class A Shares which it holds (directly and indirectly) in CRFC and its interests in both the Manager (CABL) and the Mortgage Broker (C.A. Bancorp Realty Finance Inc.). The Proposed Transaction contemplates Green Tree assuming the Company's obligations under the commitment agreement dated January 31, 2008 between the Company and CRFC and the note payable to CRFC.

The Proposed Transaction remains subject to certain conditions, including without limitation, receipt of consents and regulatory approvals, completion of certain transaction documents, the approval of both the Preferred Shareholders and Class A Shareholders of CRFC voting separately as a class and other customary closing conditions for a transaction of this nature.