

*Consolidated Financial Statements of*

**C.A. BANCORP INC.**

*September 30, 2007 (Unaudited)*

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

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**September 30, 2007 (Unaudited)**

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# C.A. BANCORP INC.

## Consolidated Balance Sheets

As at September 30, 2007 (Unaudited) and December 31, 2006  
(thousands of dollars)

|   | <u>September 30, 2007</u> | <u>December 31, 2006</u> |
|---|---------------------------|--------------------------|
| <b>ASSETS</b>   |                           |                          |
| Cash and cash equivalents (Note 3)                          | \$ 21,674                 | \$ 32,905                |
| Receivables   | 1,179                     | 215                      |
| Real estate loans (Note 4)                                  | 2,900                     | -                        |
| Direct public investments (Note 5)                          | 37,509                    | 4,137                    |
| Corporate investments in capital pool companies<br>(Note 6) | 156                       | 164                      |
| Investment in Charter REIT (Note 7)                         | 17,963                    | 489                      |
| Investments in High Fidelity HDTV (Note 8)                  | 2,835                     | -                        |
| Deferred costs (Note 9)                                     | 298                       | 84                       |
| Prepaid expenses  | 58                        | 21                       |
| Future income tax (Note 16)                                 | 1,099                     | -                        |
|   | <b>\$ 85,671</b>          | <b>\$ 38,015</b>         |
| <b>LIABILITIES</b>  |                           |                          |
| Accounts payable and accrued liabilities                    | \$ 1,238                  | \$ 842                   |
| Due to broker   | -                         | 140                      |
|   | <b>1,238</b>              | <b>982</b>               |
| NON-CONTROLLING INTEREST (Note 19)                          | <b>1,000</b>              | -                        |
| <b>SHAREHOLDERS' EQUITY</b>                                 |                           |                          |
| Share capital (Note 13)                                     | 83,620                    | 38,592                   |
| Warrants (Note 13)  | -                         | 254                      |
| Contributed surplus (Note 13)                               | 1,526                     | 375                      |
| Deficit   | (1,713)                   | (2,188)                  |
|   | <b>83,433</b>             | <b>37,033</b>            |
|   | <b>\$ 85,671</b>          | <b>\$ 38,015</b>         |

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

*"John F. Driscoll"*

..... Director

*"Richard J. Zarzeczny"*

..... Director

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

# C.A. BANCORP INC.

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

For the three and nine months ended September 30 (Unaudited)

(thousands of dollars except per share amounts)

|  | Three months ended Sept 30 |                 | Nine months ended Sept 30 |                 |
|--|----------------------------|-----------------|---------------------------|-----------------|
|  | 2007                       | 2006            | 2007                      | 2006            |
| <b>REVENUE</b>   |                            |                 |                           |                 |
| Interest and investment income   | \$ 1,406                   | \$ 19           | \$ 2,801                  | 69              |
| Revenues from rental properties (Note 7)   | 497                        | -               | 1,691                     | -               |
| Asset management fees (Note 10)  | 192                        | 52              | 548                       | 52              |
| Other fees and commissions   | 389                        | -               | 454                       | -               |
|  | <b>2,484</b>               | <b>71</b>       | <b>5,494</b>              | <b>121</b>      |
| <b>NET RESULTS OF INVESTMENTS</b>  |                            |                 |                           |                 |
| Realized gain on sale of direct public investments   | 318                        | 3               | 1,441                     | 4               |
| Change in unrealized loss on direct public investments (Note 5)                              | (2,531)                    | (161)           | (2,490)                   | (197)           |
| Equity participation in CPCs (Note 6)  | (2)                        | -               | (8)                       | -               |
| Gain on dilution of Charter REIT (Note 7)  | 921                        | -               | 1,373                     | -               |
| Equity participation in Charter REIT (Note 7)  | (329)                      | -               | (329)                     | -               |
|  | <b>(1,623)</b>             | <b>(158)</b>    | <b>(13)</b>               | <b>(193)</b>    |
| <b>EXPENSES</b>  |                            |                 |                           |                 |
| General and administration (Note 7 & 11)   | 557                        | 290             | 1,632                     | 652             |
| Corporate and transaction costs (Note 7)   | 238                        | -               | 1,217                     | -               |
| Stock based compensation (Note 7 & 14)   | 655                        | 13              | 958                       | 49              |
| Interest expense (Note 7)  | 314                        | -               | 929                       | 7               |
| Depreciation and amortization (Note 7)   | 227                        | -               | 760                       | -               |
| Management fees (Note 11)  | 315                        | 9               | 593                       | 9               |
| Rental property operating costs (Note 7)   | 139                        | -               | 487                       | -               |
| Investment management fee (Note 10)  | 86                         | 29              | 252                       | 29              |
|  | <b>2,531</b>               | <b>341</b>      | <b>6,828</b>              | <b>746</b>      |
| <b>NET LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST</b>                             |                            |                 |                           |                 |
|  | <b>(1,670)</b>             | <b>(428)</b>    | <b>(1,347)</b>            | <b>(818)</b>    |
| <b>PROVISION (RECOVERY) OF INCOME TAXES (Note 16)</b>  |                            |                 |                           |                 |
| Current tax provision  | 153                        | -               | 350                       | -               |
| Future tax recovery  | (501)                      | -               | (1,099)                   | -               |
|  | <b>(348)</b>               | <b>-</b>        | <b>(749)</b>              | <b>-</b>        |
| <b>NET LOSS BEFORE NON-CONTROLLING INTEREST</b>  |                            |                 |                           |                 |
|  | <b>(1,322)</b>             | <b>(428)</b>    | <b>(598)</b>              | <b>(818)</b>    |
| <b>NON-CONTROLLING INTEREST (Note 7)</b>   |                            |                 |                           |                 |
|  | <b>(237)</b>               | <b>-</b>        | <b>(979)</b>              | <b>-</b>        |
| <b>NET LOSS AND COMPREHENSIVE INCOME (LOSS)</b>  |                            |                 |                           |                 |
|  | <b>\$ (1,085)</b>          | <b>\$ (428)</b> | <b>\$ 381</b>             | <b>\$ (818)</b> |
| <b>NET LOSS PER SHARE (Post share consolidation - see Note 1)</b>                            |                            |                 |                           |                 |
| Basic  | \$ (0.04)                  | \$ (0.04)       | \$ 0.02                   | \$ (0.08)       |
| Diluted  | \$ (0.04)                  | \$ (0.04)       | \$ 0.02                   | \$ (0.08)       |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Post share consolidation - see Note 1)</b> |                            |                 |                           |                 |
| Basic  | <b>28,956,541</b>          | 11,910,192      | <b>19,156,305</b>         | 10,848,629      |
| Diluted  | <b>28,956,541</b>          | 11,910,192      | <b>19,227,665</b>         | 10,848,629      |

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

**C.A. BANCORP INC.**  
**Consolidated Statements of Deficit**

**For the three and nine months ended September 30 (Unaudited)**

(thousands of dollars except per share amounts)

|  | <b>Three months ended Sept 30</b> |                   | <b>Nine months ended Sept 30</b> |                   |
|--|-----------------------------------|-------------------|----------------------------------|-------------------|
|  | <b>2007</b>                       | <b>2006</b>       | <b>2007</b>                      | <b>2006</b>       |
| DEFICIT, BEGINNING OF PERIOD   | \$ (628)                          | \$ (841)          | \$ (2,188)                       | \$ (89)           |
| Adjustment as a result of change in accounting<br>policy on direct public investments held for trading | -                                 | -                 | 94                               | -                 |
| Net (loss) income  | (1,085)                           | (428)             | 381                              | (818)             |
| Issue costs of Qualifying Transaction (Note 1)   | -                                 | -                 | -                                | (362)             |
| <b>DEFICIT, END OF PERIOD</b>  | <b>\$ (1,713)</b>                 | <b>\$ (1,269)</b> | <b>\$ (1,713)</b>                | <b>\$ (1,269)</b> |

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

# C.A. BANCORP INC.

## Consolidated Statements of Cash Flows

For the three and nine months ended Sept 30 (Unaudited)  
(thousands of dollars)

|  | Three months ended Sept 30 |               | Nine months ended Sept 30 |                |
|--|----------------------------|---------------|---------------------------|----------------|
|  | 2007                       | 2006          | 2007                      | 2006           |
| <b>OPERATING ACTIVITIES</b>  |                            |               |                           |                |
| Net loss and comprehensive income (loss)                           | \$ (1,085)                 | \$ (428)      | \$ 381                    | \$ (818)       |
| Adjusted for non-cash items:                                       |                            |               |                           |                |
| Future tax recovery  | (501)                      | -             | (1,099)                   | -              |
| Unrealized loss on direct public investments                       | 2,531                      | 162           | 2,490                     | 197            |
| Non-controlling interest   | (237)                      | -             | (979)                     | -              |
| Stock based compensation   | 655                        | 13            | 958                       | 49             |
| Non-cash gain on dilution in Charter REIT                          | (921)                      | -             | (1,373)                   | -              |
| Realized gain on direct public investments                         | (318)                      | (3)           | (1,441)                   | (4)            |
| Equity participation in capital pool companies                     | 2                          | -             | 8                         | -              |
| Equity participation in Charter REIT                               | 329                        | -             | 329                       | -              |
| Depreciation and amortization                                      | 227                        | -             | 760                       | -              |
| Other Charter REIT related items                                   | 199                        | -             | 1,538                     | -              |
| High Fidelity HDTV non-cash interest income                        | (85)                       | -             | (85)                      | -              |
| Changes in non-cash operating working capital:                     |                            |               |                           |                |
| Increase (decrease) in current liabilities                         | (173)                      | 418           | 256                       | (155)          |
| (Increase) decrease in receivables and prepaid expense             | (647)                      | (252)         | (1,001)                   | (296)          |
| (Increase) decrease in deferred costs                              | (41)                       | (233)         | (214)                     | (138)          |
| <b>Net cash provided by (used in) operating activities</b>         | <b>(65)</b>                | <b>(323)</b>  | <b>528</b>                | <b>(1,165)</b> |
| <b>INVESTING ACTIVITIES</b>  |                            |               |                           |                |
| Real estate loans  | (1,987)                    | -             | (2,900)                   | -              |
| Purchase of direct public investments                              | (12,992)                   | (30)          | (45,155)                  | (331)          |
| Proceeds on sale of direct public investments                      | 4,203                      | 230           | 10,828                    | 272            |
| Investments in capital pool companies                              | -                          | (690)         | -                         | (690)          |
| Investments in High Fidelity HDTV (Note 8)                         | (2,750)                    | -             | (2,750)                   | -              |
| Bridge financing provided to Charter REIT                          | -                          | -             | (4,590)                   | -              |
| Bridge financing repaid by Charter REIT                            | 4,590                      | -             | 4,590                     | -              |
| Investments in Charter REIT  | (15,000)                   | -             | (18,099)                  | -              |
| Distributions received from Charter REIT                           | 302                        | -             | 302                       | -              |
| Other  | -                          | -             | -                         | 27             |
| <b>Net cash used in investing activities</b>                       | <b>(23,634)</b>            | <b>(490)</b>  | <b>(57,774)</b>           | <b>(722)</b>   |
| <b>FINANCING ACTIVITIES</b>  |                            |               |                           |                |
| Non-controlling interest in AgriFinancial (Note 19)                | 1,000                      | -             | 1,000                     | -              |
| Common shares issued (Note 13)                                     | 1,353                      | 242           | 49,203                    | 242            |
| Issue costs paid (Note 13)   | (174)                      | -             | (4,087)                   | (59)           |
| Warrants exercised   | -                          | -             | 133                       | -              |
| Common shares repurchased under normal course issuer bid (Note 13) | (234)                      | -             | (234)                     | -              |
| Cash acquired on Qualifying Transaction (Note 1)                   | -                          | -             | -                         | 2,042          |
| <b>Net cash provided by financing activities</b>                   | <b>1,945</b>               | <b>242</b>    | <b>46,015</b>             | <b>2,225</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>        | <b>(21,754)</b>            | <b>(571)</b>  | <b>(11,231)</b>           | <b>338</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>              | <b>43,428</b>              | <b>986</b>    | <b>32,905</b>             | <b>77</b>      |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                    | <b>\$ 21,674</b>           | <b>\$ 415</b> | <b>\$ 21,674</b>          | <b>\$ 415</b>  |
| <b>REPRESENTED BY:</b>   |                            |               |                           |                |
| Cash   | \$ 11,963                  | \$ 192        | \$ 11,963                 | \$ 192         |
| Cash equivalents (Note 3)  | 9,711                      | 223           | 9,711                     | 223            |
|  | <b>\$ 21,674</b>           | <b>\$ 415</b> | <b>\$ 21,674</b>          | <b>\$ 415</b>  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>           |                            |               |                           |                |
| Income taxes paid  | \$ -                       | \$ -          | \$ -                      | \$ -           |
| Interest paid  | \$ 297                     | \$ -          | \$ 926                    | \$ 3           |

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

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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”) was incorporated as Master Mines and Metals Inc., pursuant to the provisions of the *Business Corporations Act* (Alberta) on March 29, 2005 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the “TSXV”). On April 19, 2005 the Company changed its name to Master West Resources Ltd. and on April 27, 2005 changed its name to Masthead Resources Ltd.

C.A. Bancorp completed its initial public offering on August 22, 2005 issuing common shares (pre-consolidation, see below) at \$0.20 per share (\$2.00 per share post-consolidation). On September 2, 2005 C.A. Bancorp began trading on the TSXV under the symbol “MTH.P”. On January 26, 2006, C.A. Bancorp completed its Qualifying Transaction (as defined in Policy 2.4 of the TSXV) and changed its name from Masthead Resources Ltd. to C.A. Bancorp Inc. and its trading symbol to “BKP”.

On November 27, 2006 the Company closed a public offering from treasury raising gross proceeds of \$38.8 million at \$0.30 per share (\$3.00 per share post-consolidation).

As of April 30, 2007 C.A. Bancorp completed a 10-for-1 share consolidation reducing the number of outstanding shares from 141,741,703 to 14,174,171 where shareholders received 1 post-consolidation share for every 10 pre-consolidation shares. Any reference to common shares, warrants and options to purchase common shares in the financial statements or these notes to the financial statements is a reference to post-consolidation shares unless otherwise stated. That is, comparative figures have been adjusted as if the consolidation had occurred since inception.

April 27, 2007 was the last day the Company’s common shares were listed for trading on the TSXV. Beginning on April 30, 2007 the Company’s common shares were listed for trading on the Toronto Stock Exchange.

On June 29, 2007 the Company closed a public offering issuing 14,500,000 shares from treasury raising gross proceeds of \$47.85 million at \$3.30 per share.

On July 25, 2007 an additional 410,000 shares of C.A. Bancorp Inc. were issued for gross proceeds of \$1.35 million pursuant to the exercise by the agents of the over-allotment option, in connection with the common share offering that closed on June 29, 2007.

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### (a) Principles of consolidation

The Company’s financial statements as at September 30, 2007 include the accounts of its wholly-owned subsidiaries: C.A. Bancorp Ltd., C.A. Realty Management Inc., and C.A. Bancorp Realty Finance Inc. as well as its 90.5% owned subsidiary C.A. Bancorp Financial Corp. (See Note 19).

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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)

#### (a) Principles of consolidation (continued)

The Company's consolidated financial statements as at September 30, 2007 also include revenue and expense accounts of its majority owned subsidiary Charter Real Estate Investment Trust ("Charter REIT") (Note 7) for the period of February 23, 2007 to August 9, 2007, the period during which the Company had a controlling interest in Charter REIT.

All intercompany transactions and balances have been eliminated in these consolidated financial statements.

#### (b) Changes in Accounting Policy – Financial Instruments and Comprehensive Income

On January 1, 2007 the Company adopted the following new accounting standards of the Canadian Institute of Chartered Accountants (the "CICA"): Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instrument – Disclosure and Presentation" and Section 1530, "Comprehensive Income". These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide the requirements for the recognition and measurement of financial instruments as well as comprehensive income. These standards require that all financial assets be classified 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 in the consolidated balance sheets, except for loans, 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. 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. Subsequent measurement and changes in fair value of financial instruments will depend on their initial classification as follows: held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value (when fair value is reliably measured) recorded in other comprehensive income until the instrument is derecognized or impaired. In cases where fair value is not reliably measured the carrying value will continued to be used subject to impairment tests. Comprehensive income consists of net income and other comprehensive income. Major components of other comprehensive income may include unrealized gains and losses on financial assets classified as available-for-sale and changes in fair value of the effective portion of cash flow hedging instruments. The adoption of these new standards has been applied retroactively with no restatement of prior years. The Company's opening deficit, as of January 1, 2007, has been adjusted for the impact of adopting these standards. For the three months and nine months ended September 30, 2007, comprehensive income is the same as net income.

As a result of the adoption of these new standards the Company has elected to classify the following:

#### (i) Loans and other receivables

Loans and other receivables are held at amortized cost.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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)

#### (i) *Loans and other receivables (continued)*

Allowances for impaired loans are maintained which reduce the carrying value of loans receivable to their estimated realizable amounts. Estimated realizable amounts for individual loans are determined with reference to the present value of future cash flows inherent in a loan and to the fair value of any security underlying the loans.

Specific allowances are established for individual impaired loans for which the estimated realizable amount is less than the carrying value. These allowances may be supplemented by non-specific allowances for losses which are determined with reference to loan balances in arrears, aging of loan balances and past loan loss experience.

#### (ii) *Direct public investments*

Direct public investments are classified as held-for-trading.

Direct investments are carried at fair value as at September 30, 2007. The closing bid prices are used in determining the fair value of direct investments that are publicly traded.

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".

#### (iii) *Private investments*

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

Equity investments are classified as available-for-sale and initially valued at fair value. Subsequent carrying values of equity investments will depend on the reliability of measuring fair values. Where fair values are reliably measurable the carrying values will be adjusted to fair value and the change recorded through other comprehensive income.

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

#### (iv) *Accounts payable and accrued liabilities*

Accounts payable and accrued liabilities, notes payable, and secured debt are classified as other liabilities, all of which are carried at amortized cost.

#### (c) *Revenue recognition*

##### (i) *Interest and investment income*

Interest income is recognized on an accrual basis as it is earned. Investment income is recorded on the ex-dividend/ex-distribution date.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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)

*(ii) Loan origination fees*

Loan origination fees are considered to be adjustments to loan yield and are deferred and amortized to income over the term of the loan.

*(iii) Asset management and performance fees*

Asset management fees recorded as revenue are based upon the average net asset value of the Sentry Select Total Strategy Fund ("Total Strategy Fund") and are recognized on an accrual basis.

Performance fees related to the Total Strategy Fund are recognized when performance thresholds have been satisfied and management is assured of their realization and are recognized on an accrual basis.

*(iv) 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.

*(d) Deferred costs*

Deferred costs include tenant improvements related to rental property acquisitions, and tenant inducements and leasing fees incurred through leasing activities.

*(e) Cash and cash equivalents*

Cash and cash equivalents are comprised of cash and short-term investments with maturities of three months or less from the date of their acquisition. Short-term investments are carried at cost plus accrued interest, which approximates market value.

*(f) Investments in capital pool companies*

Investments in capital pool companies are accounted for using the equity method as the Company is deemed to exercise significant influence over its investments.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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) *Incentive stock options*

The Company has an incentive stock option 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.

(h) *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.

(i) *Income (loss) per share*

Basic income (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 income (loss) per share.

(j) *Use of estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 intangible assets and liabilities, calculation of the fair value of stock options and the allocation of purchase price to income producing properties and the components of the total investment in High Fidelity HDTV. Actual results could differ from these estimates.

(k) *Charter REIT related accounting policies (during consolidation period)*

The Company used the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases was accounted for on a straight-line basis over the terms of the respective leases.

Revenues from rental properties also included realty tax and operating cost recoveries, and other incidental income which were recognized on an accrual basis.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

(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)

(k) *Charter REIT related accounting policies (during consolidation period) (continued)*

The Company allocated the purchase price for income producing properties as follows:

i. Land

Land was recorded at its estimated fair value.

ii. Buildings

Buildings were recorded at either depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age or a “dark value” appraisal, which is an income based valuation approach and gives the hypothetical value of the building as if the property were completely vacant at the date of acquisition.

iii. Loan and commitment fees

Loan and commitment fees were deferred and were amortized into income using the effective interest method.

Commitment fees and other fees incurred in connection with debt financing are netted in the balance sheet against the debt to which they relate. These costs are amortized into interest expense using the effective interest method.

### 3. CASH AND CASH EQUIVALENTS

As at September 30, 2007 the Company held \$962 in cash and the following in cash equivalents: a Government of Canada Treasury Bill, yielding 3.59% and maturing on October 4, 2007 in the amount of \$60, a term deposit in the amount of \$11,001 yielding 4.25% and maturing on October 1<sup>st</sup>, 2007, and a term deposit in the amount of \$9,651 yielding 4.45% and maturing on October 1<sup>st</sup>, 2007. As at December 31, 2006 the Company held a Government of Canada Treasury Bill, yielding 3.44% and maturing on January 11, 2007 in the amount of \$171 and a term deposit yielding 4.20% maturing on January 2, 2007 in the amount of \$31,037.

### 4. REAL ESTATE LOANS

As at September 30, 2007 the Company had five loans outstanding with a weighted average interest rate of 11.14% and an expected weighted average maturity of six months. The loans are secured by commercial real estate: four loans are first mortgages and one loan is a second mortgage.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

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

### 5. DIRECT PUBLIC INVESTMENTS

In accordance with the Company's accounting policies a fair value (unrealized loss) adjustment of \$2,490 was recognized in income for the nine months ended September 30, 2007 (2006 - \$197). As at September 30, 2007 the Company had 62 (December 31, 2006 - 20) investments in publicly traded securities as part of its direct public investments portfolio.

| <b>Public Traded Direct Investments</b> |                           |                   |   |                          |                       |                               |
|---|---------------------------|-------------------|---|--------------------------|-----------------------|-------------------------------|
| <b>Industry Grouping</b>                | <b>September 30, 2007</b> |                   |   | <b>December 31, 2006</b> |                       |                               |
|   | <b>Cost</b>               | <b>Fair Value</b> | <b>Unrealized Gain (Loss)</b>                               | <b>Cost</b>              | <b>Carrying Value</b> | <b>Unrealized Gain (Loss)</b> |
| <b>Industrials</b>                      | \$ 16,068                 | \$ 14,819         | \$ (1,249)  | \$ 1,457                 | \$ 1,457              | \$ -                          |
| <b>Diversified &amp; Other</b>          | 10,460                    | 10,510            | 50  | 810                      | 802                   | (8)                           |
| <b>Financial Services</b>               | 7,295                     | 6,336             | (959)   | 873                      | 808                   | (65)                          |
| <b>Infrastructure</b>                   | 3,412                     | 3,454             | 42  | 133                      | 133                   | -                             |
| <b>Energy &amp; Commodities</b>         | 3,109                     | 2,390             | (719)   | 1,303                    | 937                   | (366)                         |
| <b>Total</b>                            | \$ 40,344                 | \$ 37,509         | \$ (2,835)  | \$ 4,576                 | \$ 4,137              | \$ (439)                      |
|   |                           |                   |   |                          |                       |                               |
|   |                           |                   | Fair value adjustment credited to opening retained earnings | -                        | 94                    | 94                            |
|   |                           |                   |   |                          |                       |                               |
|   |                           |                   | Total carrying value adjusted to fair value                 | \$ 4,576                 | \$ 4,231              | \$ (345)                      |

The manager of an investment trust with a carrying value of \$178 (December 31, 2006 - \$197) is controlled by the CEO/Chairman of the Company and the investment advisor of an investment trust owned by the Company with a carrying value of \$224 (December 31, 2006 - \$226) is controlled by the CEO and Chairman of the Company.

The CEO/Chairman of the Company is the Chairman of the general partner that manages an equity investment with a carrying value of \$781 (December 31, 2006 - \$134).

## C.A. BANCORP INC.

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#### 6. CORPORATE INVESTMENTS IN CAPITAL POOL COMPANIES

The Company had the following investments in capital pool companies (“CPCs”) accounted for using the equity method as at September 30, 2007:

| <u>Capital Pool Company Investment</u> | <u>Percent Ownership</u> | <u>Cost</u> | <u>Cumulative Adjustments</u> | <u>Carrying Value</u> |
|--|--------------------------|-------------|-------------------------------|-----------------------|
| Universal Infrastructure Corp.         | 27.1%                    | \$ 95       | \$ (17)                       | \$ 78                 |
| Global Alternative Investments Inc.    | 27.1%                    | 95          | (17)                          | 78                    |
| Total CPCs                             |                          | \$ 190      | \$ (34)                       | \$ 156                |

The Company had the following investments in capital pool companies (“CPCs”) as at December 31, 2006 (excluding Charter REIT which is disclosed separately):

| <u>Capital Pool Company Investment</u> | <u>Percent Ownership</u> | <u>Cost</u> | <u>Cumulative Adjustments</u> | <u>Carrying Value</u> |
|--|--------------------------|-------------|-------------------------------|-----------------------|
| Universal Infrastructure Corp.         | 27.1%                    | 95          | (13)                          | 82                    |
| Global Alternative Investments Inc.    | 27.1%                    | 95          | (13)                          | 82                    |
| Total CPCs                             |                          | \$ 190      | \$ (26)                       | \$ 164                |

The Company, along with its CEO/Chairman as well as two of its other board members founded two CPCs: Universal Infrastructure Corp. (“Universal”) and Global Alternative Investments Inc. (“Global”) on August 2, 2006. Each CPC was seeded with \$200 in gross proceeds (two million shares at \$0.10). Universal and Global separately completed an initial public offering on December 5, 2006 raising \$300,000 in gross proceeds by issuing 1.5 million shares at \$0.20. On January 10, 2007 Universal and Global began trading on the TSX Venture under the symbols UIC.P and GLIP respectively.

Universal and Global are each considered related parties to the Company and the Company is considered to have significant influence over the CPCs at September 30, 2007 and December 31, 2006 for accounting purposes.

In accordance with the equity method of accounting for investments carrying value adjustments of \$4 (Universal) and \$4 (Global) were taken against income during the nine months ended September 30, 2007 (September 30, 2006 – nil) based on the Company’s percentage ownership and the amount of time during the year that the Company was deemed to have significant influence over these CPCs.

On a fair value basis the Company’s investments in Universal and Global had values of \$204 and \$200 respectively as at September 30, 2007 based on the closing bid prices of \$0.215 and \$0.21 respectively.

# C.A. BANCORP INC.

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### 7. INVESTMENT IN CHARTER REIT

On September 14, 2006 the Company purchased 2.5 million common shares of Charter Realty Holdings Ltd. ("Charter") in a private placement transaction at \$0.20 per share for a total cost of \$500. Subsequent to this private placement the Company owned 41.7% of Charter.

On February 23, 2007 Charter completed a second private placement issuing 15 million shares at \$0.20 per share each, of which the Company subscribed for 9.5 million shares for a total cost on the subscription of \$1.9 million. This transaction gave the Company a 57.1% ownership in Charter.

On May 10, 2007, Charter completed its conversion to a trust structure under a Plan of Arrangement (the "Arrangement"). The Arrangement resulted in shareholders of Charter transferring their shares to Charter REIT, in consideration for units of Charter REIT. As a result of the Arrangement every 10 issued shares of Charter were transferred to the Charter REIT in exchange for 1 unit of Charter REIT. Charter REIT was formed pursuant to a Declaration of Trust dated March 27, 2007, specifically for the purposes of the Company converting into Charter REIT. As the exchange was a taxable event for shareholders converting into unitholders the Company has accrued for tax on the taxable portion of its capital gain where the capital gain was estimated to be \$2.50 per post-exchange unit (based on estimated \$4.50 market price per Charter REIT unit).

On June 21, 2007 Charter REIT completed another private placement issuing 741,000 units at \$4.05 each, of which the Company subscribed for 296,000 units for a total cost on the subscription of \$1.2 million. Subsequent to the private placement and as at June 30, 2007 the Company owned 52.4% of Charter REIT.

As a result of the dilution of the Company's interest in Charter REIT from 57.1% to 52.4% the Company recorded a gain (non-cash) on dilution of Charter REIT on its consolidated statement of operations of \$452 in the second quarter of 2007.

On August 9, 2007 Charter REIT completed a public offering of 13,375,000 units at \$3.45 each of which the Company subscribed for 4,347,826 units for a total cost of \$15 million. On September 5, 2007 Charter REIT closed its over-allotment option for an additional 1,370,912 units at \$3.45. Subsequent to the public offering and as at September 30, 2007 the Company owned 33.2% of the outstanding units of Charter REIT.

As a result of the dilution of the Company's interest in Charter REIT from 52.4% to 33.2% the Company recorded a gain (non-cash) on dilution of Charter REIT on its consolidated statement of operations in the third quarter of \$921. As of August 9, 2007 the Company no longer had a controlling interest in Charter REIT. In accordance with the equity method of accounting for investments a carrying value adjustment of \$329 was taken against income based on the Company's percentage ownership for the period from August 9, 2007 to September 30, 2007 for which the Company was deemed to have significant influence over Charter REIT.

The Company controlled Charter REIT while it owned over 50% of Charter's equity and consolidated the Charter REIT accounts for financial reporting purposes during that time. Included in the statement of operations is revenue from rental properties of \$1,691, interest and investment revenue of \$25, general and administration expenses of \$537, corporate transaction costs of \$930, interest expense of \$908, depreciation and amortization of \$760, rental property operating costs of \$487, stock based compensation of \$48 and non-controlling interest of \$979.

## C.A. BANCORP INC.

### Notes to the Consolidated Financial Statements

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#### 8. INVESTMENTS IN HIGH FIDELITY HDTV

In July of 2007 the Company made a \$2.75 million cash investment in High Fidelity HDTV Inc. ("High Fidelity") in return for a 6.88% equity interest (taken in the form of common shares and nominal cost warrants to purchase common shares) as well as a debenture with a \$2.73 million face (maturity) value earning a 10% coupon (5% settled in cash and 5% paid-on-maturity) and maturing in July of 2009. In addition the Company has the right but not the obligation (the "Option") to purchase an additional 3.44% of High Fidelity's common shares within four years of the Company's initial investment at a price which presently, the Company estimates is approximately three times the current fair value.

|                                      | <u>Cost</u>     | <u>Carrying Value</u> | <u>Fair Value Estimate</u> |
|--------------------------------------|-----------------|-----------------------|----------------------------|
| Debenture (July 2009 maturity)       | \$ 2,245        | \$ 2,330              | \$ 2,330                   |
| Equity (Common shares and warrants ) | 455             | 455                   | 484                        |
| Option (July 2011 expiry)            | 50              | 50                    | 50                         |
| <b>Total</b>                         | <b>\$ 2,750</b> | <b>\$ 2,835</b>       | <b>\$ 2,864</b>            |

The initial \$2.75 million cash investment was allocated to the securities received based on the estimated fair value of each investment. The debenture was fair valued using a discounted cash flow analysis with an effective interest rate of 20%.

The equity was fair valued using a 45% per annum discount rate on the projected enterprise value in three years. The projected enterprise value is based on forecasted EBITDA.

The option was valued using a Black-Scholes model and assumed a volatility assumption of 57%.

All forecasted information including EBITDA and the timing of cash flows is consistent with the base case investment thesis developed by the Company.

The Company continues to evaluate the fair value of the investments acquired, and based on this ongoing evaluation, the investment allocation may change in the future.

# C.A. BANCORP INC.

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### 9. DEFERRED COSTS

As at September 30, 2007 the Company had deferred costs of \$298 (December 31, 2006 - \$84). The deferred costs consist primarily of legal fees incurred by the Company for the drafting of an offering memorandum related to a proposed private equity fund ("Private Equity Fund") that it expects to launch in early 2008. Any deferred costs related to the Private Equity Fund that are not expected to be recoverable will be expensed when that determination is made.

### 10. ASSET AND INVESTMENT MANAGEMENT FEES

The Company acts as the manager (the "Manager") of Sentry Select Total Strategy Fund ("Total Strategy Fund") – an investment trust listed under the symbol TSF.UN on the Toronto Stock Exchange - for which it earns a management fee and, subject to certain conditions, performance fees ("Asset Management Fees") in accordance with the terms of the prospectus of the Total Strategy Fund. The Company, in its capacity as Manager, has appointed Sentry Select Capital Corp. "Sentry Select" as the investment manager ("Investment Manager") and pays a portion of its Asset Management Fees to the Investment Manager in the form of investment management fees ("Investment Management Fees").

The Company recognized \$548 in Asset Management Fees as revenue and \$252 of Investment Management Fees as expenses for the nine months ended September 30, 2007 (September 30, 2006 – \$52 and \$29). Included in Asset Management Fees are \$499 of management fees and \$49 of performance fees.

### 11. ADMINISTRATION AND MANAGEMENT AGREEMENTS WITH SENTRY SELECT

On May 18, 2006, the independent members of the Board of Directors of the Company approved an Amended and Restated Administration Agreement (the "Administration Agreement") between the Company and Sentry Select Capital Corp. ("Sentry Select") which was effective from July 1, 2006 (replacing the previous administration agreement) and on September 25, 2006, an Amended and Restated Management Agreement (the "Management Agreement") which was retroactively effective from July 1, 2006. The fees paid under the Administration and Management Agreements are intended to cover all salaries, bonuses, rent and other overhead-type operating expenses with the exception of stock options and commissions paid on mortgage broker fees earned.

#### (a) Administration Agreement

The Administration Agreement was amended to provide Sentry Select with a monthly fee of \$40,000 (\$35,000 prior to amendment), plus applicable taxes for the provision of administrative services including accounting and recordkeeping, regulatory reporting and compliance, investor relations, office space, equipment and administrative and management personnel, and other administrative and office services.

For the nine months ended September 30, 2007, \$360 (2006 - \$330) was charged to the Company in respect of the Administration Agreement. As of September 30, 2007 (December 31, 2006 – \$nil) \$40 was due to Sentry Select in respect of such fees.

# C.A. BANCORP INC.

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### 11. ADMINISTRATION AND MANAGEMENT AGREEMENTS WITH SENTRY SELECT (continued)

#### (b) *Management Agreement*

The Management Agreement engages 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% (the "Management Fee"), plus applicable taxes, based on the Company's closing consolidated book value from the previous quarter (subject to certain adjustments in accordance with the Management Agreement).

Sentry Select may also be entitled to a performance bonus ("Performance Bonus") equal to 20% of the amount by which the annual consolidated pre-tax, pre-Management Fee and pre-Performance Bonus net income of the Company, as at December 31 in each year, exceeds the Yearly Bonus Threshold (as defined in the Management Agreement and subject to Clawback Payments and Cumulative Bonus Thresholds also as defined in the Management Agreement) for such year. The Yearly Bonus Threshold is an amount equal to a return of 8% per annum based on the Company's consolidated book value.

For the nine months ended September 30, 2007 the Company incurred \$593 (2006 – \$9) in Management Fees to Sentry Select. No Performance Bonus has been incurred to date.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 12. RELATED PARTY TRANSACTIONS

Unless mentioned elsewhere in the notes to these consolidated financial statements the following are additional disclosures regarding related party transactions.

(a) *Reimbursement of expenses*

As at September 30, 2007 \$43 (December 31, 2006 - \$176) was due to Sentry Select for reimbursement of third party expenses of the Company paid for by Sentry Select. The amount is due on demand and is non-interest bearing.

(b) *Charter REIT*

As at September 30, 2007 \$158 in investment income, \$285 in acquisition and management fees, and \$47 for reimbursement of expenses were due from Charter REIT.

### 13. 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 First Preferred Shares without nominal or par value.

The following is a continuity of the share capital of the Company:

| <u>Common shares</u>  | <u>Number of shares</u> | <u>Share capital</u> |
|---|-------------------------|----------------------|
| As at December 31, 2006   | 14,136                  | \$ 38,592            |
| Common Shares issued (cancelled) during the year<br>as a result of: |                         |                      |
| Warrants exercised  | 38                      | 146                  |
| Treasury offering   | 14,500                  | 47,850               |
| Treasury offering - over-allotment                                  | 410                     | 1,353                |
| Issue costs   | -                       | (4,087)              |
| Normal course issuer bid  | (96)                    | (234)                |
| <b>As at September 30, 2007</b>                                     | <b>28,988</b>           | <b>\$ 83,620</b>     |

On August 8, 2007 the Company announced its intention to purchase and cancel shares through a normal course issuer bid through the TSX. As at September 30, 2007 96,000 shares were repurchased through the normal course issuer bid at an average price of \$2.44 per share including commission and were cancelled.

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## Notes to the Consolidated Financial Statements

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### 13. SHAREHOLDERS' EQUITY (continued)

(b) Warrants to purchase common shares

|  | (000s)<br><u>Number of warrants</u> | <u>Carrying Value</u> |
|--|-------------------------------------|-----------------------|
| As at December 31, 2006                  | 731                                 | \$ 254                |
| Exercised in 2007                        | (38)                                | (13)                  |
| Warrants cancelled or expired<br>in 2007 | (693)                               | (241)                 |
| <u>As at September 30, 2007</u>          | <u>-</u>                            | <u>\$ -</u>           |

(c) Contributed surplus

|  | <u>Carrying Value</u> |
|--|-----------------------|
| As at December 31, 2006                            | \$ 375                |
| Net increase related to incentive<br>stock options | 910                   |
| Expiry of unexercised warrants                     | 241                   |
| <u>As at September 30, 2007</u>                    | <u>\$ 1,526</u>       |

# C.A. BANCORP INC.

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### 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") to the Company. Pursuant to the Plan, the Board of Directors 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 of Directors on September 15, 2005, the Company granted, to Directors, an aggregate of 21,500 options to purchase Common Shares which may be exercised from issuance at a price of \$2.00 per share for a period of five years from the date of grant. The stock option plan and the grant of options there under are subject to regulatory approval and the Escrow Agreement.

Pursuant to the Plan and approval by the Board of Directors on June 22, 2006, the Company granted, to certain directors, officers, employees and consultants an aggregate of 78,000 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. The estimated fair value of these options on the date of grant was \$108 and will be expensed as they vest.

On August 24, 2006 a director of the Company resigned and forfeited 3,000 (fair value of \$4 on date of grant) of his unvested options related to this grant.

Pursuant to the Plan and approval by the Board of Directors on December 22, 2006, the Company granted, to certain directors, officers, employees and consultants an aggregate of 765,500 options 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. The estimated fair value of these options on the date of grant was \$939 and will be expensed as they vest.

Pursuant to the Plan and approval by the Board of Directors on August 21, 2007, the Company granted, to certain directors, officers, employees and consultants an aggregate of 1,275,000 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 with the remaining two-thirds vesting equally on August 21, 2008 and August 21, 2009. The estimated fair value of these options on the date of grant was \$1,588 and will be expensed as they vest.

# C.A. BANCORP INC.

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### 14. STOCK BASED COMPENSATION (continued)

For the nine months ended September 30, 2007 the Company recorded a total expense of \$958 (September 30, 2006 - \$49) in relation to the C.A. Bancorp option grants as well as amounts expensed by Charter in the quarter. The fair value 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 September 30, 2007:

| Optionee Type           | # of<br>Optioned<br>Shares<br>Outstanding | Vested         | Expiry<br>Date | Exercise<br>Price | Risk-<br>Free<br>Rate | Volatility<br>Assumption | (\$ 000s)<br>Value<br>at Grant |
|-------------------------|---|----------------|----------------|-------------------|-----------------------|--------------------------|--------------------------------|
| Sept. 15, 2005 Grant    |   |                |                |                   |                       |                          |                                |
| Employees               | 17,500                                    | 17,500         | Sept. 15, 2010 | \$ 2.00           | 3.82%                 | 30%                      | \$ 12                          |
| Non-Employees           | 2,000                                     | 2,000          | Sept. 15, 2010 | \$ 2.00           | 3.82%                 | 30%                      | 1                              |
|                         | 19,500                                    | 19,500         |                |                   |                       |                          | 13                             |
| June 22, 2006 Grant     |   |                |                |                   |                       |                          |                                |
| Employees               | 37,000                                    | 24,667         | June 22, 2011  | \$ 3.30           | 4.45%                 | 40%                      | 51                             |
| Non-Employees           | 38,000                                    | 25,333         | June 22, 2011  | \$ 3.30           | 4.45%                 | 40%                      | 53                             |
|                         | 75,000                                    | 50,000         |                |                   |                       |                          | 104                            |
| Dec. 22, 2006 Grant     |   |                |                |                   |                       |                          |                                |
| Employees               | 455,500                                   | 151,833        | Dec. 22, 2011  | \$ 3.10           | 3.80%                 | 38%                      | 559                            |
| Non-Employees           | 310,000                                   | 103,333        | Dec. 22, 2011  | \$ 3.10           | 3.80%                 | 38%                      | 380                            |
|                         | 765,500                                   | 255,166        |                |                   |                       |                          | 939                            |
| August 21, 2007 Grant   |   |                |                |                   |                       |                          |                                |
| Employees               | 920,000                                   | 306,667        | Aug. 21, 2012  | \$ 3.30           | 4.50%                 | 60%                      | 1,146                          |
| Non-Employees           | 355,000                                   | 118,333        | Aug. 21, 2012  | \$ 3.30           | 4.50%                 | 60%                      | 442                            |
|                         | 1,275,000                                 | 425,000        |                |                   |                       |                          | 1,588                          |
| <b>Total All Grants</b> | <b>2,135,000</b>                          | <b>749,666</b> |                |                   |                       |                          | <b>\$ 2,644</b>                |

As at September 30, 2007, the weighted average contractual remaining life of the options was 4.60 (December 31, 2006 – 4.92) years.

### 15. FINANCIAL INSTRUMENTS

Except as disclosed elsewhere in these consolidated financial statements, the carrying value of the Company's financial instruments approximates their fair value.

# C.A. BANCORP INC.

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### 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 as at September 30, 2007 and December 31, 2006 are as follows:

|  | As at<br><u>September 30, 2007</u> | As at<br><u>December 31, 2006</u> |
|--|------------------------------------|-----------------------------------|
| Future income tax assets   |                                    |                                   |
| Non-capital loss carryforwards   | \$ 24                              | \$ 605                            |
| Deemed capital gain on conversion of<br>Charter shares to Charter REIT units | 487                                | -                                 |
| Other Charter REIT carrying value adjustments                                | 94                                 |                                   |
| Unrealized loss on direct public investments                                 | 461                                | 159                               |
| Cumulative eligible capital pool expenses                                    | 33                                 | 28                                |
|  | <u>1,099</u>                       | 792                               |
| Valuation allowance  | -                                  | (792)                             |
| <u>Net future tax asset</u>  | <u>\$ 1,099</u>                    | <u>\$ -</u>                       |

As at September 30, 2007, the Company and its subsidiaries had non-capital losses available to be carried forward to offset income in future years of \$77. A valuation allowance against the benefit of these losses has not been recognized in these financial statements and these losses are still available to offset future taxable income up to the date of their expiry. These losses expire as follows:

| Year |              |
|------|--------------|
| 2015 | \$ 63        |
| 2026 | 14           |
|      | <u>\$ 77</u> |

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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### 16. INCOME TAXES (continued)

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 loss before income taxes as follows:

|   | For the nine months ended September 30, |          |
|---|---|----------|
|   | 2007                                    | 2006     |
| Loss before income taxes                          |   |          |
| and non-controlling interest                      | \$ (1,347)                              | \$ (817) |
| Combined federal and provincial income tax rate   | 36.1%                                   | 35.9%    |
| Expected recovery for income taxes                | (487)                                   | (293)    |
| Permanent differences                             | 352                                     | -        |
| Temporary differences                             | -                                       | -        |
| Future tax rate change                            | 138                                     | -        |
| Other   | 7                                       | -        |
| Unrecognized benefit of tax losses                | -                                       | -        |
| Valuation allowance                               | -                                       | 293      |
| Recognition of previously unrecognized tax losses | (759)                                   | -        |
| Net tax recovery                                  | \$ (749)                                | \$ -     |
| Current tax provision                             | \$ 350                                  | \$ -     |
| Future tax recovery                               | (1,099)                                 | -        |
| Net tax recovery                                  | \$ (749)                                | \$ -     |

# C.A. BANCORP INC.

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### 17. SEGMENTED INFORMATION

The following is a summarized balance sheet and statement of operations of the Company and Charter REIT with certain elimination adjustments required for consolidation already reflected in each segment. The Company's main businesses consist of direct investing (public and private excluding Charter) and asset management services (collectively "Investing"). Charter REIT's business consists mainly of purchasing and managing retail based real estate properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. As at and for the period ended December 31, 2006 C.A. Bancorp's investment in Charter REIT was reported within a one line caption on the balance sheet and had a carrying value of \$489.

| STATEMENT OF OPERATIONS<br>For the three months ended | September 30, 2007 |             |                       | Sept<br>2006 |
|---|--------------------|-------------|-----------------------|--------------|
|   | Investing          | Real Estate | Total<br>C.A. Bancorp | C.A. Bancorp |
| Revenues  | \$ 1,983           | \$ 501      | \$ 2,484              | \$ 71        |
| Net results of investments                            | (2,215)            | 592         | (1,623)               | (158)        |
| Expenses  | (1,589)            | (942)       | (2,531)               | (341)        |
| Loss before<br>net recovery of income taxes           | (1,821)            | 151         | (1,670)               | (428)        |
| Net recovery of income taxes                          | 348                | -           | 348                   | -            |
| Net loss before<br>non-controlling interest           | (1,473)            | 151         | (1,322)               | (428)        |
| Non-controlling interest                              | -                  | 237         | 237                   | -            |
| Net (loss) Income                                     | \$ (1,473)         | \$ 388      | \$ (1,085)            | \$ (428)     |

| STATEMENT OF OPERATIONS<br>For the nine months ended | September 30, 2007 |             |                       | Sept<br>2006 |
|--|--------------------|-------------|-----------------------|--------------|
|  | Investing          | Real Estate | Total<br>C.A. Bancorp | C.A. Bancorp |
| Revenues   | \$ 3,778           | \$ 1,716    | \$ 5,494              | \$ 121       |
| Net results of investments                           | (1,057)            | 1,044       | (13)                  | (193)        |
| Expenses   | (3,160)            | (3,668)     | (6,828)               | (746)        |
| Loss before<br>net recovery of income taxes          | (439)              | (908)       | (1,347)               | (818)        |
| Net recovery of income taxes                         | 749                | -           | 749                   | -            |
| Net loss before<br>non-controlling interest          | 310                | (908)       | (598)                 | (818)        |
| Non-controlling interest                             | -                  | 979         | 979                   | -            |
| Net (loss) Income                                    | \$ 310             | \$ 71       | \$ 381                | \$ (818)     |

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

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

### 17. SEGMENTED INFORMATION (continued)

| BALANCE SHEETS                  | As at Sept 30, 2007 |                  |                        | As at                         |
|---------------------------------|---------------------|------------------|------------------------|-------------------------------|
|                                 | Investing           | Real Estate      | Consolidated<br>Entity | Dec. 31, 2006<br>C.A. Bancorp |
| <b>Assets</b>                   |                     |                  |                        |                               |
| Cash and other current assets   | \$ 22,911           | \$ -             | \$ 22,911              | \$ 33,141                     |
| Investments                     | 43,400              | 17,963           | 61,363                 | 4,137                         |
| Other non-current assets        | 1,397               | -                | 1,397                  | 737                           |
|                                 | <u>\$ 67,708</u>    | <u>\$ 17,963</u> | <u>\$ 85,671</u>       | <u>\$ 38,015</u>              |
| <b>Liabilities</b>              | \$ 1,238            | \$ -             | \$ 1,238               | \$ 982                        |
| <b>Non-controlling interest</b> | 1,000               | -                | 1,000                  | -                             |
| <b>Shareholders' Equity</b>     |                     |                  | <u>\$ 83,433</u>       | <u>\$ 37,033</u>              |

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

September 30, 2007 (Unaudited)

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

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### 18. RISK MANAGEMENT

#### *Market risk*

The Company is exposed to market risk as a result of its investments in publicly traded securities – namely its direct public investments. Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument. The investments of the Company are subject to normal market fluctuations and the risks inherent in investments in the equity markets.

The Company seeks to mitigate market risks where possible by diversifying into investments across broad industry sectors and by establishing positions in investments over a period of a time.

#### *Liquidity risk*

The Company has begun to make investments in private investments 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 rarely are expected in the first year of making the investment. The Company seeks to obtain regular cash flow from these investments through coupon payments. The Company has invested all of its Direct Public Investments in securities in an active market which can be readily disposed of. There can be no assurance that an active trading market for the securities will exist at all times, or that the prices at which the securities trade accurately reflect their values. Thin trading in a security could make it difficult to liquidate holdings quickly.

### 19. SUBSEQUENT EVENT

On October 12, 2007 the Company closed an \$89 million acquisition ("the Acquisition") of the businesses of Agrifinance and AgriCard through a newly created subsidiary, AgriFinancial Canada Corp. ("AgriFinancial").

Agrifinance and AgriCard, both headquartered in Winnipeg, are leading independent providers of financing solutions for the Canadian agricultural sector. Agrifinance provides specialized equipment leasing and lending products created specifically for farmers, and AgriCard is a credit card designed specifically for farm-related purchases.

The \$89 million purchase and closing costs were financed by approximately \$78.5 million of debt, including the assumption of certain liabilities, and the investment of approximately \$10.5 million of equity. The equity investment was made by C.A. Bancorp and the Total Strategy Fund through C.A. Bancorp Financial Corp. ("Financial Corp.").

C.A. Bancorp and Total Strategy are the sole shareholders of Financial Corp., C.A. Bancorp holds approximately 90.5% (\$9.5 Million) and Total Strategy holds approximately 9.5% (\$1.0 Million) of the issued and outstanding shares of Financial Corp. Financial Corp. owns and controls all of the issued and outstanding shares of AgriFinancial. AgriFinancial has arranged a \$118 million senior debt facility through a syndicate of Canadian credit unions and one other financial institution. The credit agreement under which the financing is provided is for an 18-month period and requires AgriFinancial to maintain a debt to tangible equity ratio of no more than 9:1 at all times.

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

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

**September 30, 2007 (Unaudited)**

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

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### **19. SUBSEQUENT EVENT (continued)**

Although the closing of the Acquisition occurred subsequent to September 30, 2007 the newly formed Financial Corp. was funded with equity in anticipation of the closing and \$1.0 million of cash and the non-controlling interest related to Total Strategy's equity contribution has been recorded in the Company's consolidated balance sheet at quarter end.

### **20. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to presentation in the current period and/or to provide more meaningful comparison.