

*Consolidated Financial Statements of*

**C.A. BANCORP INC.**

*December 31, 2009*

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

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**December 31, 2009**

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## Auditors' Report

To the Shareholders of  
C.A. Bancorp Inc.

We have audited the consolidated balance sheets of C.A. Bancorp Inc. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive earnings (loss), deficit and accumulated other comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Licensed Public Accountants  
March 19, 2010

# C.A. BANCORP INC.

## Consolidated Balance Sheets

As at December 31, 2009 and December 31, 2008 (in \$ thousands)

	Note	2009	2008
<b>ASSETS</b>			
Cash and cash equivalents	3	\$ 11,114	\$ 1,245
Cash held as collateral		-	700
Accounts receivable		1,659	1,132
Assets from discontinued operations (AgriFinancial)	4	-	87,306
Loans receivable	5	58	104
Publicly traded investments	6	1,718	2,024
Investments in private entities	7	37,654	30,253
Investment in Charter REIT	8	7,502	8,948
Investment in C.A. Bancorp Canadian Realty Finance Corporation	9	8,900	9,293
Other corporate investments		-	378
Future income tax assets	16	264	1,103
Intangible assets	9, 10	2,394	2,922
Goodwill	10	-	1,823
Prepaid expenses and other assets		97	357
Capital assets	11	154	190
		\$ 71,514	\$ 147,778
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities		\$ 1,935	\$ 721
Due to broker		-	2,600
Future income tax liabilities	16	155	-
Note payable to C.A. Bancorp Canadian Realty Finance Corporation	9	1,825	2,578
Liabilities from discontinued operations (AgriFinancial)	4	-	75,094
		3,915	80,993
NON-CONTROLLING INTERESTS		(43)	66
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	76,996	78,747
Contributed surplus	15	4,960	4,408
Deficit		(14,314)	(16,436)
		67,642	66,719
		\$ 71,514	\$ 147,778

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"John F. Driscoll"

..... Director

"Paul Haggis"

..... Director

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

# C.A. BANCORP INC.

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

For the year ended December 31 (in \$ thousands except per share amounts)

	<i>Note</i>	2009	2008
<b>REVENUE</b>			
Interest and investment income		\$ 3,124	\$ 6,098
Asset management fees		1,976	1,433
Other fees and commissions		295	527
		<b>5,395</b>	<b>8,058</b>
<b>NET RESULTS OF INVESTMENTS</b>			
Realized loss on sale of publicly traded investments	<i>6</i>	(781)	(7,974)
Change in unrealized gain (loss) on publicly traded investments	<i>6</i>	1,630	(1,621)
Change in unrealized gain (loss) on investments in private entities held for trading	<i>7</i>	3,957	(976)
Impairment loss on Everus	<i>7</i>	(3,704)	-
Equity participation on investments in private entities	<i>7</i>	84	-
Unrealized gain (loss) on common share portfolio related to CRFC		-	(10,556)
Unrealized MTM on forward contract related to CRFC		-	10,556
Impairment loss on goodwill and intangible assets related to Barlow	<i>10</i>	(2,070)	-
Other corporate investments		(82)	(18)
Equity participation in C.A. Bancorp Canadian Realty Finance Corporation	<i>9</i>	342	(118)
Equity participation in Charter REIT	<i>8</i>	(542)	(522)
Impairment loss in Charter REIT	<i>8</i>	-	(6,624)
		<b>(1,166)</b>	<b>(17,853)</b>
<b>EXPENSES</b>			
Employee costs		3,011	512
Fees paid to Sentry Select	<i>13</i>	2,598	1,991
General and administration		1,592	1,432
Corporate and transaction costs	<i>13</i>	1,907	736
Interest expense		177	1,842
Depreciation and amortization		61	21
Investment management fee		-	17
Stock based compensation	<i>14</i>	(693)	530
		<b>8,653</b>	<b>7,081</b>
<b>NET LOSS BEFORE INCOME TAXES</b>		<b>(4,424)</b>	<b>(16,876)</b>
<b>PROVISION (RECOVERY) FOR INCOME TAXES</b>			
Current tax (recovery) provision	<i>16</i>	(468)	128
Future tax provision (recovery)	<i>16</i>	994	(1,526)
		<b>526</b>	<b>(1,398)</b>
<b>NET LOSS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTERESTS</b>		<b>(4,950)</b>	<b>(15,478)</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>(109)</b>	<b>(14)</b>
<b>NET LOSS FROM CONTINUING OPERATIONS</b>		<b>(4,841)</b>	<b>(15,464)</b>
<b>NET EARNINGS FROM DISCONTINUED OPERATIONS</b>	<i>4</i>	<b>6,963</b>	<b>1,105</b>
<b>NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)</b>		<b>\$ 2,122</b>	<b>\$ (14,359)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands)</b>			
Basic		<b>26,905</b>	27,923
Diluted		<b>26,905</b>	27,923
<b>NET EARNINGS (LOSS) PER SHARE - BASIC</b>			
Continuing operations		\$ (0.18)	\$ (0.55)
Discontinued operations		0.26	0.04
Net earnings (loss) per share		\$ 0.08	\$ (0.51)
<b>NET EARNINGS (LOSS) PER SHARE - DILUTED</b>			
Continuing operations		\$ (0.18)	\$ (0.55)
Discontinued operations		0.26	0.04
Net earnings (loss) per share		\$ 0.08	\$ (0.51)

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, 2007	\$ (2,077)	\$ -	\$ (2,077)
Net loss for the year	(14,359)	-	(14,359)
<b>Balance, December 31, 2008</b>	<b>\$ (16,436)</b>	<b>\$ -</b>	<b>\$ (16,436)</b>
Net earnings for the year	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>

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>	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES IN CONTINUING OPERATIONS</b>			
Net earnings (loss)		\$ 2,122	\$ (14,359)
Less: Earnings from discontinued operations, net of tax		6,963	1,105
Net loss from continuing operations		(4,841)	(15,464)
Adjusted for non-cash items:			
Future tax provision (recovery)		994	(1,526)
Change in unrealized (gain) loss on publicly traded investments	6	(1,630)	1,621
Realized loss on publicly traded investments		781	7,974
Non-controlling interest		(109)	(14)
Stock based compensation	14	(693)	530
Impairment loss in Charter REIT	8	-	6,624
Equity participation in Charter REIT	8	542	522
Equity participation in C.A. Bancorp Canadian Realty Finance Corporation	9	(342)	118
Other corporate investments		82	18
Depreciation and amortization		61	21
Non-cash interest income on private investments		(1,131)	(751)
Impairment loss on goodwill and intangible assets related to Barlow	10	2,070	-
Change in unrealized (gain) loss on private investments	7	(3,957)	976
Impairment loss on Everus	7	3,704	-
Net equity participation on investments in private entities	7	(84)	-
		(4,553)	649
Changes in non-cash operating working capital:			
(Decrease) increase in current liabilities		(1,386)	2,028
(Increase) decrease in receivables		(527)	1,349
Decrease (Increase) in prepaid expenses and other assets		260	(12)
<b>Cash flows (used in) from operating activities in continuing operations</b>		<b>(6,206)</b>	<b>4,014</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES IN CONTINUING OPERATIONS</b>			
Mortgages and loans issued		(131)	(4,845)
Mortgages and loans repaid		177	12,767
Financing fees received		-	114
Purchase of publicly traded investments		(12)	(8,381)
Sale proceeds of publicly traded investments		1,167	27,805
Investments in private entities	7	(5,934)	(17,780)
Cash held as collateral		700	(700)
Acquisition of Barlow Capital Management Inc.		-	(2,070)
Investment in C.A. Bancorp Canadian Realty Finance Corporation	9	-	(9,850)
Payment of issue costs to C.A. Bancorp Canadian Realty Finance Corporation	9	(18)	(2,738)
Class A Share distributions received from C.A. Bancorp Canadian Realty Finance Corporation	9	735	184
Note payable to C.A. Bancorp Canadian Realty Finance Corporation	9	(453)	2,640
Distributions received from Charter REIT	8	966	1,531
Investment in Charter REIT	8	(62)	(204)
Investment in corporate entities		296	(244)
Purchase of capital assets		(151)	(42)
Disposal of capital assets		126	-
Other		-	(12)
<b>Cash flows used in investing activities in continuing operations</b>		<b>(2,594)</b>	<b>(1,825)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES IN CONTINUING OPERATIONS</b>			
C.A. Bancorp common shares repurchased	12	(506)	(1,969)
Cash from non-controlling interest		-	80
<b>Cash flows used in financing activities in continuing operations</b>		<b>(506)</b>	<b>(1,889)</b>
Cash flows (used in) from continuing operations		(9,306)	300
Cash flows from discontinued operating activities		-	1,401
Cash flows from discontinued investing activities	4	18,722	4,166
Cash flows from discontinued financing activities		-	(7,506)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>9,416</b>	<b>(1,639)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>1,698</b>	<b>3,337</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 11,114</b>	<b>\$ 1,698</b>
<b>CASH AND CASH EQUIVALENTS CONSIST OF:</b>			
Cash and cash equivalents from continuing operations		\$ 11,114	\$ 1,245
Cash and cash equivalents from discontinued operations	4	-	453
		\$ 11,114	\$ 1,698
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income taxes paid		\$ 235	\$ 760
Interest paid		\$ 162	\$ 231

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

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
**(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 opportunities.

The Company trades on the Toronto Stock Exchange (the “TSX”) under the symbol “BKP”.

The Company’s two significant financings to date included a public offering from treasury of \$38.8 million in gross proceeds which closed in November 2006 and a public offering from treasury of approximately \$48.8 million in gross proceeds which closed in June 2007.

The Company’s wholly owned subsidiary C.A. Bancorp Ltd. (“CABL”) is licensed as a Portfolio Manager (“PM”) and a Exempt Market Dealer (“EMD”) 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 (“FSCO”).

The Company’s wholly-owned subsidiary C.A. Realty Management Inc. has a management agreement with Charter Real Estate Investment Trust (“Charter REIT”) which is a publicly traded entity on the TSX Venture Exchange under the symbol “CRH.UN”. The Company owns approximately 33% of Charter REIT’s issued and outstanding units.

CABL has a management agreement with and the Company holds a 29% interest in the Class A Shares of C.A. Bancorp Canadian Realty Finance Corporation (“CRFC”). CRFC which is publicly traded on the TSX (the Class A Shares trade under the symbol “RF.A”, the Preferred Shares trade under the symbol “RF.PR.A” and the Warrants trade under the symbol “RF.WT”).

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

*(a) Principles of consolidation*

C.A. Bancorp’s financial statements as at December 31, 2009 include the accounts of its subsidiaries (with ownership percentages in parentheses):

- C.A. Bancorp Ltd. (100%)
- C.A. Realty Management Inc. (100%)
- C.A. Bancorp Realty Finance Inc. (100%)
- C.A. Bancorp Telecom Inc. (100%)
- C.A.B. Barlow Holdings Corp (100%)

The Company’s accounts also include C.A.B. Barlow Holdings Corp. which represents the Company’s 85% interest in Barlow Capital Management Inc. (“Barlow Capital”).

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
**(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 Company's consolidated financial statements also include the results of operations of C.A. Bancorp Financial Corp. and its wholly-owned subsidiaries AgriFinancial Canada Corp. and AgriFinancial Leasing Inc. (collectively "AgriFinancial") for all of 2008 and from the beginning of 2009 until the date of sale on January 30, 2009. AgriFinancial has been classified as discontinued operations (see Note 4).

In addition, the Company proportionately consolidated the accounts of International Infrastructure L.P., a joint-venture with Sentry Select Capital Corp. 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 on October 7, 2009.

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

*(b) 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. As at December 31, 2009, 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 ("OCI"). 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.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2009

(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)

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, 2009 and 2008, comprehensive loss is the same as net loss.

#### (c) *Loans and other receivables*

Loans and receivables are recorded at amortized cost using the effective interest method. 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.

#### (d) *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".

#### (e) *Investments in private entities*

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

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.

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

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

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
**(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) 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.

*(ii) Asset management fees*

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

*(iii) 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) Capital assets*

Depreciation and amortization of capital assets is provided on a straight-line basis as follows:

Furniture	-	3 to 5 years
Leasehold improvements	-	term of lease
Computer equipment	-	3 years

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

*(i) Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired, and is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of operations in an amount equal to the excess.

*(j) 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.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
**(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) 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.

*(l) Investments in capital pool companies*

Investments in capital pool companies (“CPC’s”) are accounted for using the equity method as the Company is deemed to exercise significant influence over its investments. The Company is deemed to exercise significant influence over these investments as it holds more than 20% of outstanding shares and management of the Company sits on the board of directors.

*(m) 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.

*(n) 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.

*(o) 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.

*(p) 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 and leases receivable, valuation of intangible assets and goodwill, allocation of purchase price to intangible assets and goodwill, valuation of investments in private entities, impairment of assets, loan provisions, useful life for amortization, and the calculation of the fair value of stock options. Actual results could differ from these estimates.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
**(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)**

*(q) Series 1, Preferred Shares*

Issue costs related to the preferred shares, Series 1 (the “Preferred Shares”) of CRFC were deferred and amortized over their life using the effective interest method. This amortization has been recorded as interest expense for the period that the Company consolidated the income and expense accounts of CRFC from February 22, 2008 to September 12, 2008.

*(r) Variable interest entity*

Where the Company is considered the primary beneficiary of a variable interest entity (“VIE”) under the Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline (“AcG-15”), the Company has consolidated the accounts of such VIE with the portion related to other beneficiaries reflected as non-controlling interests. For the period ended December 31, 2009, the Company has not identified any variable interest entities for which it is the primary beneficiary.

*(s) Accounting Adjustments*

During the year ended December 31, 2009, the Company re-evaluated its ownership interests and rights with respect to certain of its investments in private entities. During this process the Company determined that it had “significant influence” as defined by the CICA Handbook with respect to its common share investments in Birmingham Foundation Solutions (“Birmingham”) and Windward Telecom Limited (“Windward”). As a result, the Company has equity accounted for its common share investments in Birmingham and Windward. In doing so, the Company has recorded its pro-rata share of earnings and losses available to the common shareholders of Birmingham and Windward since investing in these entities in November 2007 and February 2009 respectively. Differences as a result of the change of accounting treatment related to 2007 and 2008 were immaterial and adjustments were taken in the fiscal year ended December 31, 2009.

*(t) Changes in Accounting Policies and Recent Pronouncements*

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets” replacing Section 3062, “Goodwill and Other Intangible Assets” and Section 3450, “Research and Development Costs”. The changes in section 3064 are applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The new standard did not have an impact on the consolidated financial statements.

In January 2009, the CICA issued Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements”, and 1602, “Non-Controlling Interests” which superseded current Sections, 1581, “Business Combinations” and 1600 “Consolidated Financial Statements”. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new Sections were created to converge Canadian GAAP and International Financial Reporting Standards (“IFRS”). The Company is currently evaluating the impact of the adoption of these standards on its consolidated financial statements.

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

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

**December 31, 2009**

**(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)**

In August 2009, the CICA issued various amendments to Section 3855 which eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified. As a result of these amendments non-derivative financial assets with fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables; loans and receivables for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration, must be classified as available-for-sale; and loans and receivables that the Company intends to sell immediately or in the near term must be classified as held-for-trading. The impact of the amendment did not have a material impact to the financial statements of the Company.

In January 2009, the Emerging Issues Committee (“EIC”) issued Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC had no impact on the Company’s financial position or results of operations.

In June 2009, the CICA provided a clarification to Section 3855 with respect to the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The impact of the clarification is not material to the financial statements of the Company.

In June 2009, the CICA amended Handbook Section 3862 “Financial Instruments – Disclosures” to enhance fair value measurement disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

The CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with IFRS over a transition period expected to end in 2011. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011.

### **3. CASH AND CASH EQUIVALENTS**

As at December 31, 2009, the Company held \$11,114 (December 31, 2008 - \$1,245) in cash and cash equivalents including an overnight term deposit at Royal Bank of Canada.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
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**4. DISCONTINUED OPERATIONS - SALE OF AGRIFINANCIAL CANADA CORP.**

In October 2007 the Company invested \$9,500, and the Sentry Select Total Strategy Fund (“Total Strategy Fund”) invested \$1,000 of equity capital in C.A. Bancorp Financial Corp. which became the holding entity for the Company’s purchase of the AgriFinancial business lines: Agrifinance and AgriCard. The purchase was effected through two other newly created corporations and was financed with \$10,500 of equity capital provided by the Company and the Total Strategy Fund and approximately \$77,800 of debt financing. Total assets purchased were approximately \$90,000 and \$1,700 of liabilities were assumed.

In September 2008, the Company and Total Strategy Fund entered into an agreement to sell all of the outstanding shares of C.A. Bancorp Financial Corp. to a third party (the “Transaction”). The Transaction was subject to regulatory approvals and closed on January 30, 2009.

The sale price at closing of the Transaction was \$21,638 (\$21,117 after transaction fees). The Company received approximately \$18,976 in cash (\$18,398 on closing and \$578 in April 2009) and retained \$130 in term loans for total net consideration received of \$19,106. Total Strategy Fund received approximately \$2,011 in cash.

The gain on the sale of AgriFinancial was calculated as follows:

Total purchase price at closing	\$	21,638
Transaction fees		(521)
		<hr/> 21,117
Net consideration received		21,117
Less: Total Strategy Fund's proceeds		(2,011)
		<hr/> 19,106
Net proceeds on sale to C.A. Bancorp		19,106
Carrying value of C.A. Bancorp's equity in C.A. Bancorp Financial Corp. at closing		10,530
		<hr/> 8,576
Pre-tax realized gain on sale of AgriFinancial		8,576
Provision for income taxes		(1,641)
		<hr/> 6,935
Realized gain on sale of AgriFinancial, net of taxes		6,935
Net earnings from discontinued operations January 1st to January 30th, 2009		28
		<hr/> 6,963
Net earnings from discontinued operations	\$	6,963

For financial reporting purposes in the fourth quarter of 2008 the operations of AgriFinancial were classified as “discontinued” and were accounted for in that manner. Assets and liabilities, while still consolidated, were aggregated and shown in two separate lines on the balance sheet which are discrete from the rest of the balance sheet captions. On the statement of operations, the discontinued operations of AgriFinancial are shown net so that revenues, expenses, taxes and non-controlling interests in relation to the AgriFinancial business are reflected on one-line and distinguished from the rest of the Company’s continuing operations.

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### 4. DISCONTINUED OPERATIONS - SALE OF AGRIFINANCIAL CANADA CORP. (continued)

The following table summarizes the statements of operations for the discontinued operations (note that only the net earnings from discontinued operations are reflected on the statement of operations):

	For the year ended December 31,	
	2009	2008
Revenues	\$ 787	\$ 10,037
Expenses	(727)	(8,125)
Pre-tax earnings before non-controlling interest	60	1,912
Income tax expense	(29)	(717)
Non-controlling interest	(3)	(90)
Net earnings from discontinued operations	\$ 28	\$ 1,105

### 5. LOANS RECEIVABLE

#### a) Composition of loans receivable

	December 31, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans receivable are comprised of the following:				
Related party loan (Barlow employee)	\$ -	\$ -	\$ 104	\$ 104
Other term loans	58	58	-	-
	58	58	104	104
Less: allowance for impaired loans	-	-	-	-
	\$ 58	\$ 58	\$ 104	\$ 104

The term loans were retained as part of the sale of C.A. Bancorp Financial Corp. (AgriFinancial – See Note 4).

#### b) Allowance for impaired loans

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

	For the year ended December 31,	
	2009	2008
<b>Term loans</b>		
Allowance, beginning of period	\$ -	\$ -
Provision	17	-
Write-offs	-	-
Recoveries	(17)	-
<b>Allowance, beginning of and end of year</b>	\$ -	\$ -

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### 6. PUBLICLY TRADED INVESTMENTS

In accordance with the Company's accounting policies, the Company's publicly traded investments portfolio is designated as held-for-trading and consequently, a fair value (change in unrealized gain (loss)) adjustment of \$1,630 was recognized in the statement of operations on the publicly traded investments for the year ended December 31, 2009 (year ended December 31, 2008 – change in unrealized loss taken to income of \$(1,621)) bringing the total balance sheet adjustment to an unrealized loss of \$(3,595) at December 31, 2009 (December 31, 2008 – unrealized loss adjustment of \$(5,225)).

Industry Grouping	December 31, 2009			December 31, 2008		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain (Loss)
Industrials	\$ 3,162	\$ 699	\$ (2,463)	\$ 3,162	\$ 412	\$ (2,750)
Diversified and Other	-	-	-	307	575	268
Financial Services	2,151	1,019	(1,132)	3,531	987	(2,544)
Infrastructure	-	-	-	179	37	(142)
Energy and Commodities	-	-	-	70	13	(57)
<b>Total</b>	<b>\$ 5,313</b>	<b>\$ 1,718</b>	<b>\$ (3,595)</b>	<b>\$ 7,249</b>	<b>\$ 2,024</b>	<b>\$ (5,225)</b>

The Company had five positions in its publicly traded investments portfolio as at December 31, 2009 carried at a fair value of \$1,718 (December 31, 2008 - \$2,024). The largest position in the portfolio was \$699 (December 31, 2008 - \$600). The average investment size in the portfolio was \$344 (December 31, 2008 - \$300) and the median investment size was \$371 (December 31, 2008 - \$300).

A 10% price move on the average investment in the portfolio would result in an estimated pre-tax gain or loss on the statement of operations of approximately \$34 and on the portfolio's largest position of approximately \$70.

A 10% move on the entire portfolio would result in an estimated pre-tax gain or loss of approximately \$172.

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### 7. INVESTMENTS IN PRIVATE ENTITIES

Issuer Financial Instrument	Classification	Maturity Date	December 31, 2009				December 31, 2008			
			Face/ Contractual Value	Cost	Carrying Value	Unrealized Gain (Loss)	Face/ Contractual Value	Cost	Carrying Value	Unrealized Gain (Loss)
<b>High Fidelity HDTV</b>										
Debtenture	Held-to-Maturity	Jul-10	\$ 2,226	\$ 2,135	\$ 2,135	\$ -	\$ 2,733	\$ 2,464	\$ 2,464	-
PIK Interest	Held-to-Maturity	Jul-10	408	408	408	-	209	209	209	-
Common Shares	Held-for-Trading	n/a	-	4	14	10	-	4	5	1
Warrants	Held-for-Trading	n/a	-	546	2,486	1,940	-	451	644	193
Equity Option	Held-for-Trading	n/a	-	-	-	-	-	50	40	(10)
Convertible Debtenture	Held-for-Trading	Dec-12	1,500	1,487	1,487	-	-	-	-	-
			4,134	4,580	6,530	1,950	2,942	3,178	3,362	184
<b>Birmingham Foundation Solutions</b>										
Preferred Shares	Held-for-Trading	n/a	9,000	8,148	9,064	916	8,280	7,496	7,496	-
Common Shares	Equity Accounting	n/a	-	1,852	2,322	470	-	1,704	1,704	-
			9,000	10,000	11,386	1,386	8,280	9,200	9,200	-
<b>Windward Telecom</b>										
Preferred Shares	Held-for-Trading	n/a	-	-	-	-	-	509	609	100
Common Shares	Equity Accounting	n/a	-	710	350	(360)	-	201	244	43
Promissory Note	Held-to-Maturity	Demand	122	127	122	(5)	87	78	87	9
			122	837	472	(365)	87	788	940	152
<b>Kingswood Estates</b>										
Equity	Held-for-Trading	n/a	-	6,000	6,300	300	-	6,000	6,000	-
			-	6,000	6,300	300	-	6,000	6,000	-
<b>Salbro Bottle Group</b>										
Debtenture	Held-to-Maturity	Feb-12	4,000	3,631	3,631	-	3,600	3,152	3,152	-
Warrants	Held-for-Trading	n/a	-	580	498	(82)	-	532	506	(26)
			4,000	4,211	4,129	(82)	3,600	3,684	3,658	(26)
<b>Everus Communications</b>										
DIP Facility	Loans	Demand	267	267	267	-	-	-	-	-
Debtenture	Available-for-Sale	Jun-10	5,000	4,444	615	(3,829)	4,413	3,918	2,901	(1,017)
PIK Interest	Available-for-Sale	Jun-10	851	238	238	-	238	238	238	-
Warrants	Held-for-Trading	n/a	-	644	-	(644)	-	583	431	(152)
Other Expenses	Held-for-Trading	n/a	-	400	-	(400)	-	-	-	-
			6,118	5,993	1,120	(4,873)	4,651	4,739	3,570	(1,169)
<b>Digital Payment Technologies</b>										
Debtenture	Held-to-Maturity	Oct-11	6,000	5,166	5,166	-	3,500	2,819	2,819	-
PIK Interest	Held-to-Maturity	Oct-11	251	251	251	-	22	22	22	-
Warrants	Held-for-Trading	n/a	-	1,164	2,300	1,136	-	708	682	(26)
			6,251	6,581	7,717	1,136	3,522	3,549	3,523	(26)
<b>Total</b>			<b>\$ 29,625</b>	<b>\$ 38,202</b>	<b>\$ 37,654</b>	<b>\$ (548)</b>	<b>\$ 23,082</b>	<b>\$ 31,138</b>	<b>\$ 30,253</b>	<b>\$ (885)</b>

The change in unrealized gain (loss) representing the difference between cost and carrying value of the above investments of \$337 in the period is comprised of four components: the change in unrealized gain on investments held-for-trading of \$4,088, the impairment loss on Everus Communications of \$(3,704), net equity pick-up of \$84 and the unrealized currency loss of \$(131) on a U.S. denominated investment. During the year the Company acquired the investments of Total Strategy Fund based on the consideration determined by an independent valuator as described below.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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

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

High Fidelity HDTV Inc. ("High Fidelity HDTV") creates specialty television channels in digital high-definition format and distributes its programming through major cable and satellite companies such as Rogers Cable, Bell ExpressVu, SaskTel, Canadian Cable Systems Alliance and Aurora Cable.

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

On July 4, 2007 the Company invested \$2,750 in High Fidelity HDTV along with \$1,250 by the 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 HDTV. On March 6, 2009, the Company purchased Total Strategy Fund's \$1,250 investment in High Fidelity HDTV at cost plus accrued contractual amounts owing. At the time the additional \$1,250 brought the Company's total cash investment in High Fidelity HDTV to \$4,000.

On August 11, 2009, the Company invested an additional \$1,500 in High Fidelity HDTV by way of a convertible debenture. High Fidelity HDTV 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 HDTV increased from 10% to 13% by way of warrants. The convertible debenture converts into 6% of High Fidelity's equity and was classified as held-for-trading and fair valued at \$1,487.

High Fidelity HDTV further repaid \$250 of the debenture before December 31, 2009. In the fourth quarter of 2009 the Company took a positive fair value adjustment of \$547 and \$3 on the warrants and common shares respectively.

As a result of all these transactions as at December 31, 2009, the Company's total cash investment in High Fidelity HDTV consists of a debenture of \$2,226 paying a 10% coupon (5% cash, 5% PIK), a \$1,500 convertible debenture paying a 7% cash coupon and which is convertible into 6% of High Fidelity's equity and warrants and common shares with fair values of \$2,486 and \$14, respectively.

#### (ii) Valuation and Assumptions

As the debenture is classified as held-to-maturity the debenture is accounted for at amortized cost.

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 HDTV 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 HDTV 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).

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

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

Since the time of the Company's original investment in High Fidelity HDTV 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. 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 HDTV is a private company. The EBITDA figure is normalized to adjust for any unusual or one-time items and the Company prefers to use a "run-rate" EBITDA approach where the last three months of earnings are used and annualized to recognize the growth in High Fidelity HDTV subscribers.

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 +/- \$0.5 million.

#### (b) *Birmingham Foundation Solutions*

Birmingham Foundation Solutions ("Birmingham") builds customized pile driving equipment for sale or lease around the world, and provides foundation construction services.

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

In November of 2007 the Company made a \$9,200 cash investment in Birmingham in return for a combination of common and preferred shares. The preferred shares which had a face value of \$8,280 earn a dividend of 8.89% per annum which is payable quarterly and converts into common shares upon the sale of Birmingham.

On March 6, 2009, the Company purchased an additional \$800 investment in Birmingham from Total Strategy Fund at cost plus accrued contractual amounts owing. The investment consisted of \$720 in preferred shares and \$80 in common shares. The additional \$800 brought the Company's total invested capital in Birmingham to \$10,000 (\$9,000 preferred shares and \$1,000 common shares).

Including the conversion features of the preferred shares the Company would own 33% to 45% collectively. The common shares provide the Company with approximately 8% equity interest.

In the fourth quarter of 2009, the Company determined that the common shares of Birmingham should be accounted for using the equity method of accounting. An equity pick-up adjustment of \$470 was recorded in the statement of operations. The estimated fair value of the common shares is not materially different than the carrying value.

The Company also recorded a positive fair value adjustment of \$916 on the preferred shares which are designated as held-for-trading.

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

As at December 31, 2009 the Company assumes a 45% equity interest in Birmingham for valuation purposes.

The Company uses an "earnings approach" to value its interests in Birmingham 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 EBITDA. The multiple chosen is typically below the average comparables surveyed to recognize the Company's minority equity position and the fact that Birmingham is a private company. The EBITDA figure is an average of the last fiscal year actual EBITDA (normalized to adjust for any unusual or one-time items, if necessary) and the forecast of the next fiscal year.

# C.A. BANCORP INC.

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

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 value of the preferred shares of approximately +/- \$2.25 million.

#### (c) *Windward Telecom Limited*

Windward Telecom Limited (“Windward”) is a telecommunications company providing Caribbean markets with long distance phone and data infrastructure services.

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

On February 21, 2008, the Company, through its wholly owned subsidiary, C.A. Bancorp Telecom Inc., completed a \$700 USD equity investment in Windward. \$200 USD of the investment was funded in 2007.

The Company’s investment was originally structured as \$200 USD in common shares representing a 10% interest in Windward which yielded an annual management fee of 5% and a U.S. \$500 in convertible, redeemable, retractable preferred shares paying a 13% annual dividend, with the preferred shares being convertible into 25% of Windward’s common shares under certain conditions.

The Company converted its preferred share interest into common shares during 2009 (retroactive to late 2008) resulting in 35% ownership in the Windward’s common shares. In 2009, the Company determined that the common shares of Windward should be accounted for using the equity method of accounting. An equity pick-up adjustment of \$(386) was recorded in the statement of operations.

The estimated fair value of the Windward common shares approximates their carrying value.

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

For the purposes of estimating fair value the Company uses projected future normalized earnings and an appropriate multiple based on industry comparables adjusted for risk.

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

#### (d) *Kingswood Estates*

Kingswood Estates (formerly Kingswood Apartment Complex) consists of eight garden-style apartment buildings containing a total of approximately 360 units. The property is strategically located in the south-end of Kitchener, Ontario with excellent access to major malls, the downtown area and highways.

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

On January 23, 2008, the Company completed its \$6,000 investment in a newly formed limited partnership (the "Real Estate LP") that acquired a 360-unit apartment complex in Kitchener, Ontario (the "Kingswood Estates") for an aggregate purchase price of \$23,000. The Company invested \$6,000 for an 80% limited partnership interest in the Real Estate LP, with the residual \$1,500 equity interest invested by Centurion Apartment Properties Limited Partnership and a third party institutional investor.

The Company took a positive fair value adjustment of \$300 in the fourth quarter of 2009.

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

The Company values Kingswood Estates using a capitalized net-operating-income ("NOI") approach. The NOI of the investment has been "capped" using a capitalization rate ("cap rate") to determine the enterprise value of the investment. After considering the debt on the investment an equity value is determined. This approach is widely used for income producing real estate companies.

The Company normalizes NOI (e.g. adjusting for rent increases, cost savings etc.) and makes adjustments to cap rates (e.g. cost savings, changes in cap rates as a result of property enhancements) where it believes such adjustments are necessary to arrive at a fair value and where such adjustments are consistent with the investment thesis, the business plan being implemented, and the multi-residential real estate rental and condo markets. The Company also uses probability weightings to factor in the likelihood of such pro-forma adjustments.

The Company's valuation of Kingswood as at December 31, 2009 was supported by a third party appraisal that was obtained in conjunction with the Real Estate LP investors providing further capital to the investment (see Note 22).

The key valuation assumption is the cap rate. A change in cap rate of +/- 0.25% results in a change in the fair value of the Company's 80% LP interest of approximately +/- \$0.6 million.

# C.A. BANCORP INC.

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

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

Salbro Bottling 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 funded \$3,600 in the privately held Salbro Bottle Group of companies by way of debt and equity. The Company’s investment is structured as a secured debenture with a 12% coupon 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 coupons 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 equity is 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 brings the Company’s total invested capital in Salbro to \$4,211.

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

The Company has used an analysis that is focused on Salbro’s ability to refinance (either voluntarily or involuntarily) the repurchase of its investments. Critical valuation assumptions used in this analysis include the liquidation values of Salbro’s assets. A percentage change in the assumed liquidation values would generally correspond to a similar percentage change in the Company’s combined carrying value between the debenture and the equity (warrants).

There has been no material change to the estimated fair value or carrying value of the aggregate investments during the year ended December 31, 2009 aside from the amortization of the discount on the held-to-maturity debenture.

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

#### (f) *Everus Communications Inc.*

Everus Communications Inc. ("Everus") is the largest wireless broadband internet service provider to rural communities in Southwestern Ontario.

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

Between the second quarter of 2008 and the first quarter of 2009, the Company advanced \$5,000 to Everus as consideration for a debenture and warrants.

The Company's investment was structured as a secured debenture with a 15% coupon and nominal cost warrants providing the Company with a minimum 22% equity interest in Everus.

The aggregate \$5,000 investment was allocated to the securities received based on the estimated fair value of each security.

The Company provided Everus \$250 in debtor-in-possession financing plus accrued interest of \$7 and incurred \$400 in professional fees related to the receivership proceedings.

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

The equity was originally classified as held-for-trading and was fair valued using a 47% per annum discount rate on the projected enterprise value in two and a half years. The projected enterprise value was based on Everus' forecasted EBITDA.

In the fourth quarter of 2008, an other than temporary impairment and fair value adjustment of \$1,017 and \$152 on the debenture and warrants (equity) respectively, were taken as at December 31, 2008.

Additional fair value adjustments were taken throughout 2009. A \$492 write-down was taken against the warrants (equity) to bring the estimated fair value of equity down to zero to reflect the fact that there was likely little or negligible equity value in Everus at that point in time. The Company also took a write-down of \$3,213 on the debenture. Accordingly the Company did not recognize any interest income on the debenture in 2009. Although the Company did not recognize revenue on the debenture the Company remains legally entitled to all cash and paid-in-kind interest payments. As a result of a change in the Company's intention to not hold this investment to maturity it was reclassified as available for sale.

The write-downs on the debenture and warrants are considered to be an impairment and an unrealized loss and are reflected in the net results of investments on the consolidated statements of operations.

The estimated fair value of Everus of \$1,120 was determined based on the best indication of consideration that the Company would receive in respect of all its interests in Everus once Everus emerged from receivership (see Subsequent Events note). The \$1,120 was allocated to the various interests the Company has based on their priority rankings coming out of receivership. The receiver completed a sale of the assets of Everus in March 2010. See Note 22 Subsequent Events.

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

#### (g) *Digital Payments Technologies Corp.*

Digital Payment Technologies Corp. (“Digital”) develops, sells and supports electronic parking solutions for the collection of parking revenues and management of parking operations in on-street and off-street parking.

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

The Company made the following investments in Digital 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 the Company received a debenture with a face value of \$6,000 which pays cash interest of 8% per annum and interest paid-in-kind of 4% per annum and warrants providing an equity interest in Digital of between 25% to 35%.

#### (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 is classified as held-to-maturity.

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

Since the time of the Company’s original investment in Digital the Company has moved, as its primary valuation method to an “earnings approach” to value its interests in Digital equity 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 EBITDA (earnings before interest taxes and depreciation). The multiple chosen is typically below the average comparables surveyed to recognize the Company’s minority equity position and the fact that Digital is a private company.

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

# C.A. BANCORP INC.

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### 8. INVESTMENT IN CHARTER REIT

The following table summarizes the Company's transactions in Charter REIT over the last two fiscal years. Beginning March 2008 until April 2009 the Company elected to participate in Charter REIT's distribution reinvestment plan ("DRIP") on approximately 18% of the Charter REIT units it held. As a result, the Company received a total 203,269 units in lieu of cash.

During the year ended December 31, 2008, a \$6,624 write-down was taken as a charge to pre-tax earnings on the consolidated statements of operations to account for an other-than-temporary impairment. After the write-down in relation to the impairment the Company carried Charter REIT at a carrying value of \$1.50 per unit.

For both 2008 and 2009 and in accordance with the equity method of accounting for long-term investments carrying value adjustments were taken for the Company's pro-rata portion of Charter REIT's loss ("equity pick-up") and for distributions received.

	Carrying Value	Total Number of Units held/purchased by C.A. Bancorp	Carrying Value per Unit
As at December 31, 2007	\$ 17,421	5,843,826	\$ 2.98
Participation in Charter REIT DRIP	204	121,627	0.03
Equity pick-up	(522)		(0.09)
Distributions received from Charter REIT	(1,531)		(0.26)
Other than temporary impairment loss	(6,624)		(1.11)
As at December 31, 2008	<b>\$ 8,948</b>	<b>5,965,453</b>	<b>1.50</b>
Participation in Charter REIT DRIP	62	81,642	0.01
Equity pick-up	(542)		(0.09)
Distributions received from Charter REIT	(966)		(0.16)
As at December 31, 2009	<b>\$ 7,502</b>	<b>6,047,095</b>	<b>1.24</b>

The Company's investment in Charter REIT had an estimated fair value of \$8,164 (December 31, 2008 - \$4,176) as at December 31, 2009 based on the closing bid price of \$1.35 on the Toronto Stock Exchange (December 31, 2008 - \$0.70).

The Company also recognized \$439 (2008 - \$396) in asset management fees from Charter REIT for the year ended December 31, 2009.

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**9. 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 to 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, 2009, the ratio was approximately 1.2 to 1 (December 31, 2008 – 1.2 to 1).

*(b) CRFC Unit Offering*

The Company and CRFC filed a short-form prospectus for CRFC dated August 27, 2008 offering stapled units (“Units”) 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 agreed to pay for all issue costs related to the Unit Offering over a period of seven years.

The Company has issued a note payable in the amount of \$2,757 to CRFC in connection with the Unit Offering to repay CRFC for the expenses of the Unit Offering over a maximum of seven years, plus interest equal to 6% per annum. A corresponding amount has been included in intangible assets representing asset management contracts.

	<u>Intangible Asset</u>	<u>Note Payable</u>
Issue costs of Unit Offering, September 12, 2008	\$ 2,738	\$ 2,738
Forgiveness on account of Class A Share repurchases	(62)	(62)
Principal repayments	-	(98)
<b>Balance as at December 31, 2008</b>	<b>\$ 2,676</b>	<b>\$ 2,578</b>
Additional issue costs paid during the year	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>

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

The amount outstanding on this note as at December 31, 2009 is \$1,825 (December 31, 2008 - \$2,578) of which \$317 is payable within the next year in quarterly equal installments plus accrued interest. The amount of interest accrued at December 31, 2009 is \$nil (December 31, 2008 - \$nil).

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

	<u>Bancorp</u>	<u>total</u>	<u>Investors</u>	<u>total</u>	<u>Shares</u>
Preferred Share Offering (February 20, 2008)	766,160	100.0%	-	-	<b>766,160</b>
Unit Offering (September 12, 2008)	200,000	6.9%	2,700,000	93.1%	<b>2,900,000</b>
Repurchased and cancelled under MMPP and NCIB*	-	-	(66,100)	100.0%	<b>(66,100)</b>
<b>Balance as at December 31, 2008</b>	<b>966,160</b>	<b>26.8%</b>	<b>2,633,900</b>	<b>73.2%</b>	<b>3,600,060</b>
Repurchased and cancelled under MMPP and NCIB	-	-	(329,100)	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>

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

*(c) Equity Accounting for Investment*

The Company consolidated the financial statements of CRFC up to September 12, 2008 as it held 100% of the Class A shares to that date. Subsequent to the unit offering the Company's ownership decreased to 26.8% and the Company is accounting for this investment under the equity method as it exercises significant influence over CRFC.

In accordance with the equity method of accounting for investments a carrying value adjustment of \$342 was taken into earnings based on the Company's percentage ownership during the year for which the Company was deemed to have significant influence over CRFC.

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 13 – Internalization of Management). Management fees of \$869 (2008 – \$576) were recognized as income on account of CRFC and investment management fees of \$151 (2008 - \$144) were expensed.

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

	<u>Carrying Value</u>	<u>Carrying Value per Class A Share</u>
As at December 31, 2007	\$ -	\$ -
Investment in CRFC	9,850	10.19
Equity pick-up	(373)	(0.39)
Distributions received from CRFC	(184)	(0.19)
<b>As at December 31, 2008</b>	<b>\$ 9,293</b>	<b>9.62</b>
<b>Equity pick-up</b>	<b>342</b>	<b>0.35</b>
<b>Distributions received from CRFC</b>	<b>(735)</b>	<b>(0.76)</b>
<b>As at December 31, 2009</b>	<b>\$ 8,900</b>	<b>\$ 9.21</b>

*(d) Fair Value*

The Company's investment in CRFC had a fair value of \$7,352 as at December 31, 2009 based on the closing bid price of \$7.61.

*(e) Management and loan servicing fees*

The Company also recognized loan servicing fees of \$84 (2008 - \$4) earned by providing such services to CRFC.

**10. BARLOW CAPITAL MANAGEMENT INC.**

As a result of its goodwill and intangible asset impairment test, the Company recorded non-cash impairment charges of \$1,823 and \$247 on goodwill and intangible assets, respectively in the second quarter of 2009. The impairment charges are a result of the current economic environment resulting in a material reduction in the assets under management of Barlow Capital Management Inc. in its private client division as well as the wind up of its pooled funds division effective December 31, 2009.

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**11. CAPITAL ASSETS**

Capital assets are recorded at cost less accumulated amortization and provision for impairments, if any. Capital assets are amortized on a straight-line basis over the estimated useful lives of the assets.

	December 31, 2009			December 31, 2008	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	
Computer Equipment	\$ 127	\$ 29	\$ 98	\$	23
Leasehold Improvements	-	-	-		131
Furniture	60	4	56		36
	\$ 187	\$ 33	\$ 154	\$	190

**12. FINANCIAL INSTRUMENTS**

The Company has classified the significant impacts 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 amount	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)	

Asset (Liability)	December 31, 2008							
	Held for Trading		Available-for-sale (measured at cost)	Loans and receivables/ (other financial liabilities)	Held-to-Maturity	Carrying amount	Fair value	
	Classified	Designated						
Cash and cash equivalents	\$ 1,945	\$ -	\$ -	\$ -	\$ -	\$ 1,945	\$ 1,945	
Accounts receivable	-	-	-	1,132	-	1,132	1,132	
Loans receivable	-	-	-	104	-	104	104	
Publicly traded investments	-	2,024	-	-	-	2,024	2,024	
Investments in private entities	2,303	16,058	-	-	11,892	30,253	30,253	
Accounts payable and accrued liabilities	-	-	-	(721)	-	(721)	(721)	
Due to broker	-	-	-	(2,600)	-	(2,600)	(2,600)	
Note payable to CRFC	-	-	-	(2,578)	-	(2,578)	(2,578)	

**C.A. BANCORP INC.**  
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**12. 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:

As at December 31, 2009				
Fair value measurements using:				
Asset (Liability)	Level 1	Level 2	Level 3	Assets/(liabilities) at Fair value
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 set out in Section 3862 of the CICA Handbook as described in Note 1:

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	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 changes in unrealized gains on investments in private entities are included in net results of investments on the consolidation statements of operations and comprehensive income. During the year ended December 31, 2009, the Company's investment in Everus was deemed to be impaired and as a result the Company reclassified its debenture and PIK interest investments in Everus from Held-to-Maturity to Available-for-Sale. Please refer to Note 7 for a discussion of key valuation assumptions and sensitivity analysis on the investments in private entities.

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### 13. INTERNALIZATION OF MANAGEMENT AND STRATEGIC REVIEW COSTS

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 Chairman and former Chief Executive Officer (resigned effective September 24, 2009) of C.A. Bancorp.

#### (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, until the management agreement was terminated as a servicing fee which was terminated, along with the 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, approximately \$673 of additional operating expenses were incurred during the year ended December 31, 2008.

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 for which it had previously paid cash salaries, bonuses and benefits related to the operation of Charter REIT for which C.A. Bancorp, through its wholly-owned subsidiary C.A. Realty Management Inc., has its own management contract to operate. As a result, approximately \$333 of additional operating expenses were incurred during the year ended December 31, 2009.

# C.A. BANCORP INC.

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### 13. INTERNALIZATION OF MANAGEMENT AND STRATEGIC REVIEW COSTS (continued)

#### (c) Fees paid to Sentry Select on Termination of the Agreements

In connection with the Internalization effective September 15, 2009, the Company paid to Sentry Select a one-time cash fee of \$1,435 inclusive of GST (the "Termination Fee") in consideration for the termination of the Agreements as well as the termination of an administration agreement between the Company's wholly-owned subsidiary C.A. Bancorp Ltd. (in its capacity as manager of CRFC) and Sentry Select.

Pursuant to the terms of the internalization agreement with Sentry Select, the Company: (i) entered into a sublease with Sentry Select under which the Company subletted the space which it previously occupied on terms and conditions that reflect the terms and conditions under which Sentry Select leases such space; (ii) purchased certain computer and furniture equipment from Sentry Select; (iii) entered into a transition services agreement with Sentry Select pursuant to which certain administrative services were provided to the Company for up to six months; and, (iv) employed those members of management and staff who previously provided full time services to the Company.

Included in corporate and transaction costs are additional expenses of \$654 incurred during the year ended December 31, 2009 in connection with the negotiation of the termination of the Agreements between the Company and Sentry Select. These costs were comprised primarily of legal, advisory, and independent director fees.

#### (d) Sentry Select Total Strategy Fund

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

#### (e) Summary of all fees paid to Sentry Select

The following is a summary of fees paid to Sentry Select during the years ended December 31, 2009 and 2008:

	For the year ended December 31,	
	2009	2008
The Internalization termination fee	\$ 1,435	\$ -
Management fees	591	1,223
Administration fees	356	510
CRFC administration fees (Note 9)	151	144
IT Services Fee	51	-
Transition Services Fee	5	-
Total Strategy investment management fees	9	114
Total fees paid to Sentry Select	\$ 2,598	\$ 1,991

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### 13. INTERNALIZATION OF MANAGEMENT AND STRATEGIC REVIEW COSTS (continued)

#### *(f) Maxam Acquisition Corp. Hostile Take-Over Bid Defense and Strategic Review Costs*

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 of Directors issued a Directors' Circular urging shareholders to reject the Maxam Offer. On January 12, 2009 Maxam extended the Maxam offer and increased the consideration offered thereunder. On February 2, 2010, the Maxam Offer lapsed. The Company's strategic review process, including discussions with and due diligence activities undertaken by third parties, may require some time to conclude. The Company has expensed \$733 in respect of costs related to the Maxam Offer and Strategic Review as at December 31, 2009 of which \$527 were accrued and unpaid as at December 31, 2009.

### 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 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 (of which 2,000 have been forfeited) 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.

Pursuant to the Plan and approval by the Board of Directors 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 of Directors 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.

Pursuant to the Plan and approval by the Board of Directors 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.

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**14. STOCK BASED COMPENSATION (continued)**

For the year ended December 31, 2009, the Company recorded a total recovery of \$693 (2008 - total expense of \$530) 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, 2009:

Optionee Type	# of Optioned Shares Outstanding	Exercisable	Expiry Date	Exercise Price	Risk-Free Rate	Volatility Assumption	Value at Grant
Sept. 15, 2005 Grant							
Employees	19,500	19,500	Sept. 15, 2010	\$ 2.00	3.82%	30%	\$ 13
	19,500	19,500					13
June 22, 2006 Grant							
Employees	27,500	27,500	June 22, 2011	\$ 3.30	4.45%	40%	38
Non-Employees	-	-	June 22, 2011	\$ 3.30	4.45%	40%	-
	27,500	27,500					38
Dec. 22, 2006 Grant							
Employees	370,500	370,500	Dec. 22, 2011	\$ 3.10	3.80%	38%	455
Non-Employees	25,000	25,000	Dec. 22, 2011	\$ 3.10	3.80%	38%	31
	395,500	395,500					485
August 21, 2007 Grant							
Employees	685,000	685,000	Aug. 21, 2012	\$ 3.30	4.50%	60%	853
Non-Employees	30,000	30,000	Aug. 21, 2012	\$ 3.30	4.50%	60%	37
	715,000	715,000					891
<b>Total All Grants</b>	<b>1,157,500</b>	<b>1,157,500</b>					<b>\$ 1,427</b>

The following table summarizes the Company's stock option activity for the years ended December 31:

	2009	Weighted Average Exercise Price	2008	Weighted Average Exercise Price
Number outstanding, beginning of year	1,890,000	\$ 3.19	2,055,000	\$ 3.22
Granted	-	-	-	-
Forfeited/cancelled	(732,500)	3.22	(165,000)	3.23
Number outstanding, end of year	1,157,500	\$ 3.21	1,890,000	\$ 3.22
Exercisable, end of the year	1,157,500	\$ 3.21	1,510,000	\$ 3.19

As at December 31, 2009, the weighted average contractual remaining life of the options was 2.36 (2008 – 3.35) years.

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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 August 8, 2007, the Company announced its intention to purchase and cancel its common shares through a normal course issuer bid ("NCIB"). Purchases were made commencing on August 18, 2008 and ending on August 17, 2009. While the NCIB was in place the Company was able to purchase up to a maximum of 6,299 common shares in any trading day. During the term of the NCIB, 900,100 shares were repurchased and cancelled at an average price of \$1.86 (499,400 were repurchased and cancelled at an average price of \$1.56 in 2008)..

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.

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### 15. SHAREHOLDERS' EQUITY (continued)

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

	(000s) Number of common shares	Share capital
As at December 31, 2007	28,683	\$ 82,603
Common Shares cancelled during the period as a result of:		
Normal course issuer bid	(499)	(1,439)
Mandatory market purchase program	(839)	(2,417)
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)
<b>As at December 31, 2009</b>	<b>26,737</b>	<b>\$ 76,996</b>

#### (b) Contributed surplus

	Carrying Value
As at December 31, 2007	\$ 1,990
Stock based compensation	530
Normal course issuer bid	661
Mandatory market purchase plan	1,227
<b>As at December 31, 2008</b>	<b>\$ 4,408</b>
Net increase related to:	
Stock based compensation	(693)
Mandatory market purchase plan	1,245
<b>As at December 31, 2009</b>	<b>\$ 4,960</b>

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2009

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

### 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 the year-end are as follows:

	December 31, 2009	December 31, 2008
Future income tax assets		
Non-capital loss carryforwards	\$ 1,980	\$ 515
Unrealized impairment on Charter REIT units	827	960
Deemed capital gain on conversion of Charter shares to Charter REIT units	375	435
Other Charter REIT carrying value adjustments	220	196
Net unrealized loss on investments	777	996
Cumulative eligible capital expenses	23	28
Other	(10)	33
	<u>4,192</u>	<u>3,163</u>
Valuation allowance	<u>(3,928)</u>	<u>(2,060)</u>
Net future tax asset	\$ 264	\$ 1,103

	December 31, 2009	December 31, 2008
Future income tax liabilities (all relating to CABL)		
Non-capital loss carryforwards	\$ (453)	\$ -
Net realized loss on investments	(109)	-
Intangible assets	689	-
Other	(82)	-
	<u>45</u>	<u>-</u>
Valuation allowance	<u>110</u>	<u>-</u>
Net future tax liability	\$ 155	\$ -

As at December 31, 2009, the Company and its subsidiaries had non-capital losses available to be carried forward to offset income in future years of \$9,205. A valuation allowance against the benefit of these losses has been recognized in these consolidated financial statements but these losses are still available to offset future taxable income up to the date of their expiry. These losses expire as follows:

Year	
2026	\$ 1,313
2028	3,233
2029	4,659
	<u>\$ 9,205</u>

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2009

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

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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 twelve months ended December 31,	
	2009	2008
Loss before income taxes		
and non-controlling interest	\$ (4,424)	\$ (16,876)
Combined federal and provincial income tax rate	33.0%	33.5%
Expected recovery for income taxes	(1,460)	(5,653)
Permanent differences	(1,120)	2,490
Future tax rate change	(10)	22
Valuation allowance	4,038	65
Recognition of previously unrecognized tax losses	(1,037)	1,673
Prior year adjustments	88	-
Other	27	5
Net tax recovery	\$ 526	\$ (1,398)
Current tax provision	\$ (468)	\$ 128
Future tax recovery	994	(1,526)
Net tax recovery	\$ 526	\$ (1,398)

### 17. COMMITMENTS

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

	Operating Leases	
For the year ended:		
2010	\$	290
2011		289
2012		283
2013		266
2014		210
Thereafter		-
<b>Total future minimum lease payments</b>	<b>\$</b>	<b>1,338</b>

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2009**  
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**18. RELATED PARTY TRANSACTIONS**

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

(a) *Charter REIT*

As at December 31, 2009, \$111 (December 31, 2008- \$110) in acquisition and management fees and \$70 (December 31, 2008 - \$nil) for reimbursement of third party expenses were due from Charter REIT.

(b) *C.A. Bancorp Canadian Realty Finance Corporation*

As at December 31, 2009, \$78 (December 31, 2008 - \$nil) in management fees and \$54 (December 31, 2008 - \$94) for reimbursement of third party expenses were due from CRFC.

**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 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues	\$ 158	\$ 2,197	\$ 4,798	\$ 5,250	\$ 439	\$ 611	\$ 5,395	\$ 8,058
Net results of investments	342	(118)	(967)	(17,213)	(541)	(522)	(1,166)	(17,853)
Expenses	(90)	(2,099)	(8,183)	(4,489)	(380)	(493)	(8,653)	(7,081)
Pre-tax net (loss) earnings	410	(20)	(4,352)	(16,452)	(482)	(404)	(4,424)	(16,876)
Net (provision) recovery of income taxes	(22)	(8)	(540)	1,409	36	(3)	(526)	1,398
Net (loss) earnings before non-controlling interests	388	(28)	(4,892)	(15,043)	(446)	(407)	(4,950)	(15,478)
Non-controlling interests	-	-	109	14	-	-	109	14
Net (loss) earnings from continuing operations	388	(28)	(4,783)	(15,029)	(446)	(407)	(4,841)	(15,464)
Net earnings from discontinued operations	6,963	1,105	-	-	-	-	6,963	1,105
Net earnings (loss)	\$ 7,351	\$ 1,077	\$ (4,783)	\$ (15,029)	\$ (446)	\$ (407)	\$ 2,122	\$ (14,359)
Total assets:								
From continuing operations	\$ 9,026	\$ 9,312	\$ 48,819	\$ 36,180	\$ 13,669	\$ 14,980	\$ 71,514	\$ 60,472
From discontinued operations	-	87,306	-	-	-	-	-	87,306
Total assets	\$ 9,026	\$ 96,618	\$ 48,819	\$ 36,180	\$ 13,669	\$ 14,980	\$ 71,514	\$ 147,778

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2009

(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 6.

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 year of making the investment. The Company seeks to obtain regular cash flow from these investments through coupon payments and/or management fees.

The Company invests in public 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 in a timely manner.

The Company funds itself with operating cash flows and return of capital and capital gains from its investments. Operating cash flows are sufficient to cover operating expenses.

#### *Interest rate sensitivity*

As at and during the year ended December 31, 2009, 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 only 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 does not have any significant credit risk exposure to any single counterparty except overnight term deposits placed with the Royal Bank of Canada of \$1.2 million as at December 31, 2009 (December 31, 2008 - \$1.2 million). RBC has a senior debt rating of AA- from S&P.

#### *Foreign Exchange Risk*

The Company does not have any significant exposure to foreign exchange risk. Its investment in Windward Telecom is the only foreign based investment that the Company has. The revenues and expenses of the operating company are primarily in U.S. dollars. Given that approximately \$858 is invested in Windward a 1% change in foreign exchange rates would give rise to a gain or loss of \$9.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

December 31, 2009

(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 as a going concern, 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, issue new shares, sell assets or issue debt.

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

### 22. SUBSEQUENT EVENTS

#### *(a) Follow-on investment in Kingswood Estates*

In January 2010 the Company announced that it closed a \$1.2 million follow-on interest yielding mortgage investment in Kingswood Estates. The Company's \$1.2 million mortgage investment is being matched on a proportionate basis by the other two limited partners in Kingswood Estates (\$150,000 each). The total \$1.5 million in mortgage proceeds will be utilized by Kingswood Estates to refinance existing debt and to fund future unit upgrades and yields an interest rate of 10%.

Half of the mortgage amount was funded on closing with the remainder to be funded within six months of closing.

#### *(b) Retention bonus and short-term incentive compensation plan*

The Company's Board of Directors, in their circular dated December 21, 2009 which was issued in response to the Maxam Offer, indicated their intention to, among other things, amend the employment agreements of management of the senior team members of C.A. Bancorp, Charter REIT, and CRFC severance entitlements be triggered following a change of control if the member was constructively dismissed; (ii) that members of management shall 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.

#### *(c) Sale of interests in Everus Communications Inc.*

In March 2010, the Company announced the sale of substantially all the assets and business of Everus to Barrett Xplore Inc. The transaction represented the culmination of a marketing and sales effort conducted by BDO Canada Limited, 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 approximately \$1.2 million in consideration, subject to certain post-closing adjustments. The consideration is structured as a promissory note, convertible into BXI common shares within the next twelve months.