

## 2009 Report to Shareholders

*Year ended December 31, 2009*

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### C.A. Bancorp Inc. Reports 2009 Financial Results

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C.A. Bancorp Inc. is listed on the Toronto Stock Exchange (TSX) under the symbol “BKP”.

**TORONTO, ONTARIO, March 10, 2010** – C.A. Bancorp Inc. (C.A. Bancorp or the Company) today announced its consolidated financial results for the year ended December 31, 2009.

#### **FISCAL YEAR 2009 HIGHLIGHTS**

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- **Revenues of \$5.4 million** (2008 – \$8.1 million).
- **Net gain from results of investments<sup>1</sup> of \$5.8 million** (2008 – net loss of \$17.9 million).
- **One-time expenses related to the internalization of the Company’s management and administration functions and the Company’s defence of a hostile take-over bid and related strategic review process (one-time expenses) of \$2.8 million or approximately \$0.10 per share.**
- **Net earnings adjusted for one-time expenses of \$4.9 million or approximately \$0.18 per share.**
- **Net earnings of \$2.1 million** (2008 – net loss of \$14.4 million) **or \$0.08 per share** (2008 – net loss of \$0.51 per share) **on a basic and fully diluted basis.**
- **Weighted average implied internal rate of return of approximately 20% on portfolio of investments in private entities from inception to December 31, 2009.**

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<sup>1</sup> Includes the gain on sale of AgriFinancial (net of tax) reclassified from discontinued operations (as reported under GAAP). See cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) dated March 10, 2010 provides a review of: (i) how the Company performed in 2009; (ii) material information and a discussion and analysis of the results from operations and financial condition of C.A. Bancorp for the twelve month period ended December 31, 2009 which includes the accounts of C.A. Bancorp, its subsidiaries and variable interest entities where the Company is deemed to be the primary beneficiary under Canadian generally accepted accounting principles (GAAP); and, (iii) the Company's future prospects. This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto of the Company for the year ended December 31, 2009. These documents and additional information relating to the Company, including the Company's Annual Information Form (AIF) can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

All dollar amounts in this MD&A are expressed in Canadian thousands of dollars (except per share amounts or unless otherwise indicated) and have been primarily derived from the Company's audited consolidated financial statements prepared in accordance with Canadian GAAP. Additionally, and where applicable, the financial results of the Company have been reclassified as required under Canadian GAAP such that the net impact of the discontinued operations of AgriFinancial Canada Corp. (AgriFinancial) is captured as one line-item on the statement of operations. See the cautionary statement regarding the use of Non-GAAP financial measures below.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

*This MD&A and other public announcements by the Company contain information that is forward-looking and is subject to risks and uncertainties. Forward-looking information includes information concerning the Company's future financial performance, business strategy, plans, goals, and objectives. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "will", "expect", "intend", "plan", "estimate", "anticipate", "believe" or "continue", similar words or the negative thereof. These statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Factors which could cause actual results to differ materially from those set forth in the forward-looking statements include (but are not limited to): risks associated with general economic conditions, the nature of the Company's investments; the Company's dependence on management of portfolio companies; the Company's limited operating history; the available opportunities and competition for investments; the concentration of the Company's investments; the Company's access to capital for fund management; the Company's dependence on key personnel; leverage of the businesses in which the Company invests; the market for the Company's securities and volatility of trading price; the trading price of the Company's common shares relative to the net book value (net asset value); risks affecting the Company's investments; risks affecting the Company's investments in capital pool companies; the need for the Company to make follow-on investments in portfolio companies; investments by the Company in private issuers and illiquid securities; joint investments with third parties; conflicts of interest; no guaranteed returns; use of investment proceeds, the potential loss of investment in common shares; the Company's additional financing requirements; the management of the growth of the Company; shifts in target exit dates and investment rates of return (IRR) for investments in private entities, the ability of the Company to secure a value maximizing transaction as a result of the strategic review process, and other risks detailed from time to time in the Company's continuous disclosure documents. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Unless otherwise stated, all forward-looking statements speak only as of the date of this MD&A. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

### CAUTIONARY STATEMENT REGARDING USE OF NON-GAAP FINANCIAL MEASURES

*This MD&A makes reference to net results of investments that are different than reported under Canadian GAAP. C.A. Bancorp has reclassified its interest in AgriFinancial from Discontinued Operations to Net Results of Operations. C.A. Bancorp believes that it is more appropriate to classify AgriFinancial under Net Results of Operations because it is more akin to a private equity investment and the capital gains from the sale of AgriFinancial would normally fall in Net Results of Operations if it were a non-consolidated private equity investment. In addition, this MD&A makes reference to the net book value per share which is a non-GAAP financial measure. The Company calculates the net book value per share as it believes it to be an important metric that shareholders use and frequently request and refer to because shareholders often view the Company as an holding company of investments in private entities. These are Non-GAAP financial measures that do not have any standardized meaning prescribed by Canadian GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. These classifications are not Canadian GAAP measures and should not be considered either in isolation of, or as a substitute for, measures prepared in accordance with Canadian GAAP. For a reconciliation of the AgriFinancial Non-GAAP financial measure to Canadian GAAP, please see the chart on page 29 of this MD&A.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### THE COMPANY

*The following provides a brief overview of the Company, its subsidiaries, and its operations.*

C.A. Bancorp is a publicly traded Canadian merchant bank and alternative asset manager that provides investors with access to a range of private equity and other alternative asset class investment opportunities. The Company is focused on investments, either directly (Direct Investments) or through entities managed by it (Asset Management), in small and middle capitalization private companies, with an emphasis on the industrial, real estate, infrastructure and financial services sectors. The Company's common shares trade on the Toronto Stock Exchange (TSX) under the symbol **BKP**.

As at December 31, 2009, the Company had five principal and wholly-owned operating and holding subsidiaries: C.A. Bancorp Ltd. (CAB Ltd.), C.A. Bancorp Realty Finance Inc. (Realty Finance), C.A. Realty Management Inc. (Realty Management), C.A.B. Barlow Holdings Corp. (Barlow Holdings), and C.A. Bancorp Telecom Inc. (Telecom Inc.).

The Company is a significant unitholder of Charter Real Estate Investment Trust (formerly Charter Realty Holdings Ltd.) (Charter REIT) (TSXV: **CRH.UN**), and is a significant shareholder of C.A. Bancorp Canadian Realty Finance Corporation (CRFC), (TSX: **RF.A**). The Company consolidated the accounts of: (i) Charter REIT for the period from February 23, 2007 to August 9, 2007; and, (ii) CRFC for the period from February 22, 2008 to September 12, 2008.

The Company also has Direct Investments in High Fidelity HDTV Inc. (High Fidelity), Bermingham Foundation Solutions (Bermingham), Windward Telecom Ltd. (Windward), Kingswood Drive Kitchener Limited Partnership (Kingswood), Salbro Holdings Inc. (Salbro), Digital Payment Technologies Inc. (DPT), and Barlow Capital Management Inc. (Barlow). In addition, as at December 31, 2009, the Company also had an investment in Everus Communications Inc. (Everus). Subsequent to year end, as the senior secured creditor of Everus, the Company received an interest in Barrett Xplore Inc. (BXI), in consideration for the sale of substantially all the assets and business of Everus to BXI.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For a more comprehensive review of the Company, its subsidiaries, and its operations, please refer to the Company's AIF.

### 2009 YEAR IN REVIEW AND OUTLOOK

#### *Managing our Assets and Businesses*

We committed to spend 2009 operating our core business of managing our investments in private entities (the Portfolio) and our sponsored managed entities, Charter REIT and CRFC.

Management completed the Company's first private investment realization in January 2009 when we sold our largest private investment, AgriFinancial to Western Financial Group Inc. (TSX: WES). AgriFinancial was acquired by the Company in October 2007. Over the life of the investment, management worked very closely with AgriFinancial to implement a series of initiatives that repositioned it to capitalize on the growing Canadian agricultural sector. C.A. Bancorp originally invested \$9.5 million and after sixteen months of ownership and management, the Company realized \$19.5 million in total cash proceeds representing a \$10 million pre-tax capital gain (two times invested capital). The sale was a preliminary validation of our private investment thesis of seeking control or minority positions (with significant security and exit rights) in Canadian small and mid-market growth companies. These investment opportunities are characterized by entities needing growth capital with a track record of delivering growth. We work with our portfolio companies to enhance value in preparation for significant liquidity events in a three to five year timeframe.

In addition to AgriFinancial, and other than Everus and Barlow, the rest of the Portfolio is performing well since the time our investments were made especially when taking into account recent economic and credit conditions. Each of High Fidelity, Birmingham and DPT have generated superior financial and operational performance and have strengthened their balance sheets since the time of our investments which, in our view, has resulted in increased investment values. These three investments represent our largest Portfolio investments. Management is cautiously optimistic that one or more of these investments will substantially outperform our original return targets.

Conversely, our investments in Everus and Barlow sustained significant losses in 2009, which resulted in our management team dedicating significant resources to restructuring each investment and salvaging residual values. We have effectively streamlined the operations of Barlow, which will limit any future cash obligations by the Company. Recently, our investment in Everus was salvaged through the sale of its assets and business to BXI. C.A. Bancorp received consideration that will eventually be converted into common shares of BXI. Given BXI's dominant position in the rural broadband marketplace, we are optimistic that we will recover part of our original investment in Everus at a value that will exceed the transaction value of our sale of Everus interests to BXI.

Our investments in Salbro and Kingswood appear to be progressing steadily and we remain confident that our exits from these investments will materialize profitably in excess of our cost and existing carrying values, within 18 to 36 month timeframes.

In summary, the Portfolio is maturing in-line with our expectations. It has shown resiliency in the face of challenging financial and economic headwinds. Since inception, we have invested \$50 million in the Portfolio and are pleased to report that we have realized \$25 million in cash proceeds and the weighted average implied internal rate of return (IRR) of the Portfolio is approximately 20%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a financial summary of our Portfolio since inception:

| Investment<br>(\$ millions) | Original<br>Invested<br>Capital | Net<br>Invested<br>Capital <sup>1</sup> | Cash<br>Interest<br>and Fees | Realized &<br>Unrealized<br>Capital Gain<br>(Loss) | Total<br>Gross<br>Return | Total Pre-<br>Tax Profit<br>(Loss) | Actual and<br>Implied<br>IRR <sup>2</sup> |
|-----------------------------|---------------------------------|---|------------------------------|--|--------------------------|------------------------------------|---|
| <b>Realizations</b>         |                                 |   |                              |  |                          |                                    |   |
| AgriFinancial               | \$ 9.5                          | \$ -                                    | \$ 0.4                       | \$ 9.6   | \$ 19.5                  | \$ 10.0                            | 74%                                       |
| <b>Ongoing</b>              |                                 |   |                              |  |                          |                                    |   |
| Birmingham                  | 10.0                            | 10.0                                    | 1.8                          | 1.0  | 12.8                     | 2.8                                | 14%                                       |
| Kingswood <sup>3</sup>      | 6.0                             | 6.0                                     | -                            | 0.3  | 6.3                      | 0.3                                | 3%  |
| DPT                         | 6.0                             | 6.0                                     | 0.6                          | 2.6  | 9.2                      | 3.2                                | 54%                                       |
| Everus/BXI                  | 5.7                             | 5.7                                     | -                            | (4.5)  | 1.1                      | (4.5)                              | (79%)                                     |
| High Fidelity               | 5.5                             | 3.8                                     | 0.5                          | 2.8  | 8.9                      | 3.3                                | 36%                                       |
| Salbro                      | 4.0                             | 4.0                                     | 0.9                          | 0.5  | 5.4                      | 1.4                                | 21%                                       |
| Barlow                      | 2.9                             | 2.9                                     | -                            | (2.8)  | 0.1                      | (2.8)                              | (91%)                                     |
| Windward                    | 0.7                             | 0.7                                     | -                            | 0.1  | 0.8                      | 0.1                                | 9%  |
| <b>Total Portfolio</b>      | <b>\$ 50.3</b>                  | <b>\$ 39.1</b>                          | <b>\$ 4.2</b>                | <b>\$ 9.6</b>                                      | <b>\$ 64.1</b>           | <b>\$ 13.8</b>                     | <b>20%</b>                                |

We continue to spend significant time managing the Portfolio by meeting regularly with the management teams of each Portfolio company. We generally focus on specific initiatives that further the development of their respective businesses, while also influencing the direction of the companies by participating as nominee directors on their respective boards of directors. Each Portfolio investment is now in either year two or three of its investment cycle and the value creation objectives that were outlined at the time of investment are now being implemented and risks are being mitigated to increase the likelihood that our investments realize increasing values in the next 12 to 36 months.

The Portfolio is on average approximately two years old and is heading into the “harvest” years which are traditionally the most profitable given the J-curve<sup>4</sup> effect of private equity investing. Management is confident that the Portfolio will yield acceptable risk-adjusted returns at values in excess of their current carrying values. Our confidence is rooted in the positive performance generated by most of the Portfolio companies in the face of adverse economic conditions as well as by the growth prospects ahead.

<sup>1</sup> Represents the total invested capital less the amount of any capital repaid under the terms and conditions of each investment as at December 31, 2009.

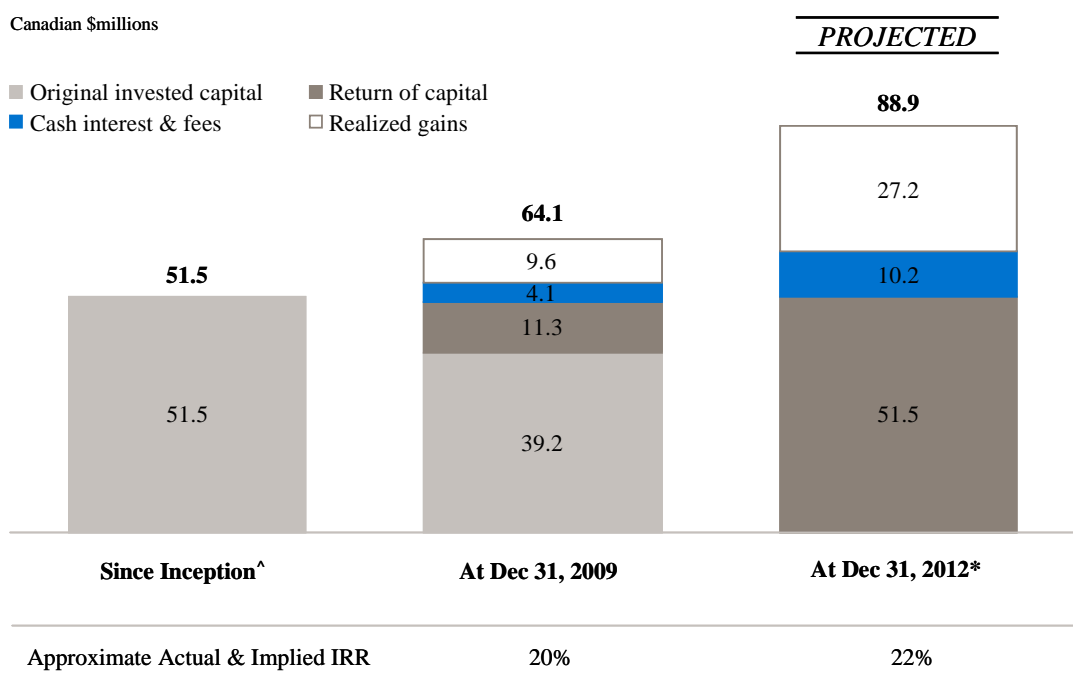
<sup>2</sup> The overall implied internal rate of return as at December 31, 2009 is calculated based on all fees and interest received in cash up to and including December 31, 2009 plus the carrying value of the Company’s total investment (debenture face values are used instead of carrying values) in an entity as at December 31, 2009.

<sup>3</sup> The Company committed to invest an additional \$1.2 million in 2010 of which \$0.6 million was funded in January 2010.

<sup>4</sup> In private equity, the J-curve is used to illustrate the historical tendency of private equity funds to deliver negative returns in early years and investment gains in the outlying years as the portfolios of investee companies mature.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a summary of the Company's expected cash returns from our Portfolio by December 31, 2012:



<sup>^</sup> The delta between invested capital of \$50.3mm in the previous table and the \$51.5mm is the follow-on investment in Kingswood.

\* Some investments may not be exited till 2013 which may impact the actual IRR of the Portfolio.

The projected figures in the above chart as at December 31, 2012 are based on a number of assumptions including that the Portfolio will perform as expected and that the Company will be able to realize on its investments in accordance with the terms thereof. Factors which could cause actual results to differ materially from the above include economic and market conditions impacting the performance of the Portfolio investments and execution risk.

The management team is also actively managing CRFC and Charter REIT. Both entities performed well throughout 2009 as the Canadian commercial real estate market slowly recovered from the lows of the previous year. We realize total cash flows of approximately \$3.0 million per annum from these entities which are significant to our operations and position us well to generate break-even to positive cash flow from operations. Additionally, our investments in both CRFC and Charter REIT are strategic to our business given that, as the largest securityholders and owners of the respective management contracts, C.A. Bancorp has the opportunity to derive a greater return on investment as it seeks to grow the asset base of both entities. We remain committed to sourcing new ways to enhance the value of our investments in both CRFC and Charter REIT in the short-term and over the long-term for our shareholders and the securityholders of CRFC and Charter REIT.

*The following is a summary of the Company's investments in its managed entities:*

| Managed Entity<br>(\$ millions) | Fee<br>Generating<br>AUM | Invested<br>Capital | Carrying<br>Value | Asset<br>Management<br>Fees | Expected<br>Annual<br>Distributions | Total Annual<br>Cash Flows |
|---------------------------------|--------------------------|---------------------|-------------------|-----------------------------|-------------------------------------|----------------------------|
| Charter REIT                    | \$ 148.0                 | \$ 18.9             | \$ 7.5            | \$ 0.4                      | \$ 1.0                              | \$ 1.4                     |
| CRFC                            | 68.0                     | 9.9                 | 8.9               | 0.9                         | 0.7                                 | 1.6                        |
| <b>Total</b>                    | <b>\$ 216.0</b>          | <b>\$ 28.8</b>      | <b>\$ 16.4</b>    | <b>\$1.3</b>                | <b>\$ 1.7</b>                       | <b>\$ 3.0</b>              |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Maintain a Strong Balance Sheet*

We committed in 2009 to preserving our capital, minimizing debt, maintaining liquidity and managing our operating costs.

The Company's financial and cash position remained strong throughout 2009 after we completed the sale of AgriFinancial in January. As at December 31, 2009, the Company had cash of \$11.1 million, working capital of \$12.3 million and debt of \$1.8 million. The Company has also established a normalized operating cost run-rate that is lower than the cash flows being generated from our Direct Investments and Asset Management activities. This gives management the financial flexibility to allocate the available cash on the balance sheet patiently in order to maximize the return profile for our shareholders.

### *Positioning for Growth*

In September 2009, the Company announced that it internalized its management and administration functions (the Internalization) previously provided by Sentry Select Capital Corp. (Sentry Select). The rationale for the Internalization was to (i) simplify the Company's operating and corporate structure; (ii) align management's interests with those of the Company's shareholders; (iii) allow the Company to make strategic and operational decisions without the uncertainty of variable management fees and performance fees to Sentry Select; and, (iv) improve the Company's corporate governance structure. The Internalization provided a less costly and more straightforward solution to achieving the objectives of independence and longer-term financial and operating flexibility than waiting to terminate the agreements in 2011 in accordance with the terms of those agreements (for more details on the Internalization, see "Transactions with Related Parties" below). In addition, the independent directors of the Company and management believed that the management and administration agreements with Sentry Select acted as an overhang on the Company's share price as the management agreements were viewed by certain investors as an effective poison pill due to the large termination fee payable by the Company to terminate the agreements in 2011. Once the Internalization was completed, the Company's share price slowly increased from its lows of early 2009 and the Company prepared to execute its 2010 business plan that was approved by the Board of Directors (the Board) in November 2009.

In December 2009, a hostile take-over bid was launched by a third party. The bidder opportunistically made the bid while the Company had a large cash position, minimal debt and a depressed stock price. The bid at \$1.22 per share, and subsequently increased to \$1.45 per share, was at a significant discount to the Company's net book value and was viewed as inadequate by the Company, the Board and its financial advisor. The hostile take-over bid failed and was ultimately withdrawn by the bidder. The Company initiated a strategic review process (the Strategic Review Process) in response to the hostile take-over bid, which process remains ongoing as at the date hereof (See "Proposed Transactions" below).

In summary, even including the significant one-time costs related to the Internalization, defense of the hostile take-over bid and the Strategic Review Process, the Company was still profitable in 2009. We expect the business to be profitable and cash flow positive from operations in 2010 as well. Regardless of any change in strategic direction as an outcome of the Strategic Review Process, we continue to believe that our asset base is valuable and with time and management focus can yield solid investment returns for our shareholders in the future.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SIGNIFICANT EVENTS

*The following is a discussion of the Company's significant events for the year ended December 31, 2009, updated for subsequent events to the date hereof.*

| Period               | Event   |
|----------------------|---|
| <b>First Quarter</b> | <p><b>Sale of AgriFinancial Canada Corp. to Western Financial Group Inc.</b></p> <p>On January 30 2009, the Company completed the sale of AgriFinancial to Bank West, a wholly-owned subsidiary of Western Financial Group Inc. (TSX: WES) (the Transaction). The purchase price for the Transaction was \$21.6 million (\$21.1 million net of transaction fees). C.A. Bancorp received approximately \$19.0 million in cash and \$0.13 million in loans receivable for total net consideration received of \$19.1 million. Sentry Select Total Strategy Fund (Total Strategy Fund) received approximately \$2.0 million in cash.</p> <p>C.A. Bancorp and Total Strategy Fund collectively generated a net profit on original invested capital (before taxes) of \$10.6 million representing an IRR of approximately 74% or two times invested capital over 16 months.</p> <p><b>Purchase of Investments in Private Entities from Total Strategy Fund</b></p> <p>In 2008, the Company made an offer (the Offer) to purchase the investments in private entities held by Total Strategy Fund (other than AgriFinancial), being Bermingham, High Fidelity and Salbro. As C.A. Bancorp was the manager of Total Strategy Fund at the time the Offer was made, its Offer was a non-arm's length transaction. Sentry Select as investment manager of Total Strategy Fund retained an independent valuator to prepare a fairness opinion in respect of the Offer. On March 6, 2009, the Company completed the purchase of the investments in private entities pursuant to the Offer for an aggregate purchase price of approximately \$2.6 million which represented the cost of the investments plus any accrued distributions.</p> <p><b>Wind-Up of Sentry Select Total Strategy Fund</b></p> <p>The Company as manager of Total Strategy Fund completed the liquidation and termination of Total Strategy Fund effective March 31, 2009. Total Strategy Fund issued a final distribution to its unitholders in the amount of approximately \$3.85 per unit (equal to the remaining net assets in the fund) immediately prior to winding-up the fund. Additional information regarding the termination of Total Strategy Fund can be found on Total Strategy Fund's profile on SEDAR at <a href="http://www.sedar.com">www.sedar.com</a>.</p> |
| <b>Third Quarter</b> | <p><b>Investment in High Fidelity HDTV Inc.</b></p> <p>In August 2009, the Company completed a follow-on investment and increased its equity interest in High Fidelity. The Company invested an additional \$1.5 million (by way of convertible debenture) in High Fidelity which was used by High Fidelity to partially repay the previously existing \$4.0 million debenture held by C.A. Bancorp. The Company believed that it was an opportune time to increase its equity position in High Fidelity given C.A. Bancorp's current valuation range of High Fidelity and its expectations of High Fidelity's long-term growth prospects. As a result of the transaction, C.A. Bancorp now holds a 13% equity interest in High Fidelity, a debenture maturing in July 2010 and a \$1.5 million convertible debenture which is convertible on the occurrence of certain events into 6% of High Fidelity's equity and which pays a 7% annual cash coupon.</p> <p><b>Closing of the Internalization</b></p> <p>Effective September 15, 2009, the Company internalized its management and administrative functions (the Internalization) previously provided by Sentry Select through the termination of management and administration agreements (the Agreements) in place between the Company and Sentry Select. In connection with the Internalization, the Company paid to Sentry Select a one-time cash fee of \$1.435 million 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 CAB Ltd. (in its capacity as manager of CRFC) and Sentry Select.</p> <p>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 sublets the space which it occupied pre-</p>  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

| Period                       | Event   |
|------------------------------|---|
|                              | <p>internalization on terms and conditions that reflect the terms and conditions under which Sentry Select leased 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 and information technology 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. On the closing of the Internalization, John Driscoll resigned his position as Chief Executive Officer of the Company. Mr. Driscoll, an approximate 13% shareholder of the Company, continues to serve as the Non-Executive Chairman of the Company's Board.</p> <p>The terms of the Internalization were arrived at following negotiations between Sentry Select and the independent directors of the Company. The independent directors retained independent legal counsel and, in order to ensure that the Internalization was financially fair, engaged Grant Thornton LLP as their independent financial advisor. Grant Thornton LLP provided a fairness opinion with respect to the terms of the Internalization and concluded that the terms of the Internalization were fair, from a financial point of view, to the shareholders of the Company.</p> |
| <b>Fourth Quarter</b>        | <p><b>Rationalization of Barlow Capital Management Inc.</b></p> <p>In the second quarter ended June 30, 2009, the Company recognized non-cash impairment charges related to the goodwill and intangible assets of the Company's investment in Barlow. The impairment charges were caused by a reduction in assets under management that resulted in financial losses within Barlow and that negatively impacted the 2009 consolidated financial results of the Company. Over the past six months, the Barlow operations were streamlined and it is expected that Barlow will not have a material impact on the financial statements of the Company in 2010.</p>   |
|                              | <p><b>Reorganization of its Investment in Windward Telecom Ltd.</b></p> <p>In December 2009, the Company converted its preferred share interest into common shares, with retroactive effect to September 2008, resulting in a 35% equity ownership position. The conversion was effected in support of Windward's efforts to establish greater credibility with the Trinidadian government in pursuit of floor market pricing and future growth opportunities in Trinidad and Tobago.</p>   |
|                              | <p><b>The Hostile Take-Over Bid and Strategic Review Process</b></p> <p>On December 3, 2009, Maxam Opportunities Fund Limited Partnership and Maxam Opportunities Fund (International) Limited Partnership (collectively, Maxam) announced their intention to commence an all-cash offer, through an acquisition entity, to acquire the Company at a price of \$1.22 per share. The offer commenced on December 7, 2009. The expiration of the offer was originally January 12, 2009, but was later extended to February 2, 2010 concurrent with an increased offer price of \$1.45 per share. The offer was unsuccessful and expired. The Company initiated a Strategic Review Process in response to the hostile take-over bid. As part of that process, the Company is in advanced discussions with a number of interested third parties that have proposed transactions at values in excess of the Maxam offer. The Company is also considering other potential value-maximizing alternatives which could yield values superior to Maxam's expired offer.</p>   |
| <b>Subsequent to Yearend</b> | <p><b>Follow On Investment in Kingswood Estates</b></p> <p>In January 2010, the Company announced that it closed a \$1.2 million follow-on mortgage investment in Kingswood bearing an interest rate of 10% and maturing in 2011. C.A. Bancorp's \$1.2 million mortgage investment is being matched on a proportionate basis by Kingswood's other two limited partners (\$0.15 million each). The aggregate \$1.5 million in mortgage proceeds will be utilized by Kingswood to refinance existing debt and to fund future property and unit upgrades.</p>  |
|                              | <p><b>Sale of Interest in Everus Communications Inc.</b></p> <p>In March 2010, the Company announced the sale of substantially all the assets and business of Everus to BXI. The transaction represented the culmination of a marketing and sales effort conducted by BDO, in its capacity as court appointed interim receiver of all the assets, undertakings and properties of Everus. The Company, as senior secured creditor of Everus, received approximately \$1.2 million in consideration, subject to certain post-closing adjustments. The majority of the consideration was satisfied by a promissory note, convertible into BXI common shares within the next twelve months.</p>   |

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **PROPOSED TRANSACTIONS**

C.A. Bancorp is engaged in a Strategic Review Process, which was initiated in response to the hostile take-over bid for the Company announced by Maxam on December 3, 2009. On February 2, 2010, the take-over bid lapsed, however the Company is continuing to pursue value maximizing alternatives which could yield values superior to the expired bid.

As at the date hereof, the Company is in advanced discussions with a number of interested third parties which have proposed transactions at values that are in excess of Maxam's expired offer but below the Company's net book value and tangible net book value.

The Company's Strategic Review Process, including discussions with and due diligence activities undertaken by third parties, may require some time to conclude. While it is difficult to predict with certainty whether any transactions will emerge from these efforts and discussions, the Board and management believe that C.A. Bancorp and its assets are attractive to third parties.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SUMMARY OF INVESTMENTS

The following is a summary of the Company's investments in private entities and managed entities as at December 31, 2009.

The Company targets an internal rate of return (IRR) of between 15% and 25% on both its invested capital in private entities and on its sponsor capital with the intent of doubling invested capital over the expected investment holding period. The range of targeted IRR is case specific and dependent upon the nature and risk profile of each investment. As at December 31, 2009, the weighted average implied IRR of the Portfolio of investments in private entities (including the sale of AgriFinancial) since inception is approximately 20%.

#### Realizations

| Industry                               | Company, Investment Overview, Rationale and Exit  | Hold Period   | Ownership Percentage | Invested Capital | Gain on Investment   |
|--|---|---|----------------------|------------------|--|
| <b>Agricultural Financial Services</b> | <p><b>AgriFinancial Canada Corp.</b>, (AgriFinancial) through its operating businesses, Agrifinance and AgriCard, is a leading independent provider of financing solutions to the Canadian agricultural sector.</p> <p><b>Investment Rationale:</b> Platform investment in the financial services sector to capitalize on the significant growth in financing opportunities present in the Canadian agricultural marketplace.</p> <p><b>Investment Exit:</b> AgriFinancial was sold to Western Financial Group Inc. (TSX: WES).</p> | <p><b>Investment Date:</b><br/>October 2007</p> <p><b>Exit Date:</b><br/>January 2009</p> | 90%                  | \$9.5 million    | <p>\$10.0 million (Sale proceeds equalled 2x invested capital).</p> <p><b>IRR: 74%</b></p> |

#### Current Portfolio

Currently, the Company has eight investments in private entities across various industry sectors that are at various stages of maturity. Each investment in the Portfolio was made with a specific investment thesis at the time of entry and the C.A. Bancorp management team is actively working with each Portfolio company on their specific growth and operational improvement objectives.

In conjunction with the liquidation of the Total Strategy Fund effective March 31, 2009, the Company acquired the minority-investment positions (Birmingham, High Fidelity and Salbro) held by Total Strategy Fund at cost plus any accrued distributions on account of interest/dividends.

In March 2010, the Company restructured its investment in Everus in conjunction with the sale of substantially all the assets and business of Everus to BXI. The Company received a promissory note, convertible into common shares of BXI within twelve months.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

| Industry   | Company and Investment Overview  |
|--|--|
| <b>Pile Driving Equipment Manufacturing and Construction</b> | <p><b>Birmingham Foundation Solutions</b> (Birmingham) builds customized pile driving equipment for sale or lease in countries around the world, and provides foundation construction services for large infrastructure projects.</p> <p><b>C.A. Bancorp's Investment:</b> \$10.0 million (original \$9.2 million + \$0.8 million acquired from Total Strategy Fund in March 2009) in the form of common and convertible straight preferred shares with an 8.89% coupon on the preferred shares. The convertible preferred shares can be converted into common shares. The Company's total interest in Birmingham is 33 to 45% (based on Birmingham's financial performance) on a fully diluted basis.</p> <p><b>Rationale:</b> Growth capital investment in a company with strong growth potential providing specialized equipment and construction services.</p> <p><b>Investment Risks Include:</b> Project cancellations, major accidents and management execution.</p> <p><b>Transaction Date:</b> November 2007</p> <p><b>Investment Update:</b> Birmingham had a successful 2009 working on a number of key construction projects. Birmingham continues to have a strong pipeline of new business going into 2010 for its construction, manufacturing, and rental divisions. It is anticipated that new government sponsored projects will come up for request for proposal (RFP) in 2010. Based on Birmingham's 2009 financial performance and expected results in 2010, the Company made a \$1 million mark-to-market increase in the value of its original investment in the fourth quarter 2009 representative of the improved financial performance and quality of Birmingham's balance sheet since 2007 when the investment was made.</p> |
| <b>Caribbean Telecom</b>                                     | <p><b>Windward Telecom Limited</b> (Windward) is a telecommunications company providing Caribbean markets with long distance phone and data infrastructure services.</p> <p><b>C.A. Bancorp's Investment:</b> Total of U.S. \$700,000 comprised of (i) common shares representing a 35% interest in Windward which yields an annual management fee of 5%.</p> <p><b>Rationale:</b> Growth capital investment in a company with a highly scalable business model, generating recurring revenues capable of serving new clients with limited additional investment.</p> <p><b>Investment Risks Include:</b> Price competition, mechanical failures, regulatory environment and management execution.</p> <p><b>Transaction Date:</b> February 2008</p> <p><b>Investment Update:</b> Windward's entry into the Trinidadian market in 2008 provoked very strong competitive reactions. In order to remain competitive, Windward lowered its prices, thereby reducing its margins. After applying pressure to the regulators, the competitors in the market agreed to establish price floors that became effective March 1, 2010 and, subject to effective enforcement by local regulators, are expected to improve the financial position and consequently the value of Windward. If the price floor, and enforcement thereof, are not in place on a sustained basis, the value of Windward may not equal the Company's carrying value as at December 31, 2009 going forward.</p>  |
| <b>Rural Wireless Broadband</b>                              | <p><b>Everus Communications Inc.</b> (Everus) is the largest wireless broadband internet service provider to rural communities in Southwestern Ontario.</p> <p><b>C.A. Bancorp's Investment:</b> \$5.0 million investment and commitment to invest. Structured as a two year secured debenture with a 15% coupon per annum, plus nominal cost warrants convertible into 22% to 47% of Everus' common shares (based on Everus' financial performance) on a fully diluted basis.</p> <p><b>Rationale:</b> Growth capital investment in a company with a backlog of new customers and a highly scalable business model capable of serving new customers at a low incremental cost.</p> <p><b>Investment Risks Include:</b> Management execution, competition, network failures and alternative technology entering the market.</p> <p><b>Transaction Date:</b> June 2008</p> <p><b>Investment Update:</b> In March 2010, the Company announced the sale of substantially all the assets and</p>   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Industry

#### Company and Investment Overview

business of Everus to Barrett Xplore Inc. (BXI) 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.

BXI is Canada's largest rural broadband internet provider that deploys a hybrid of fixed wireless and satellite technologies to deliver an urban quality broadband to rural Canadians.

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### Specialty TV Channel Broadcaster

**High Fidelity HDTV Inc.** (High Fidelity) 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.

**C.A. Bancorp's Investment:** \$4 million investment in the form of a debenture (\$2.25 million outstanding as at December 31, 2009) that provides an annual yield of 10% and a \$1.5 million debenture.

**Ownership Percentage:** 13% equity via common shares and warrants and an additional 6% via the conversion feature on the convertible debenture.

**Rationale:** Growth capital investment in a company with recurring cash flows, favourable business model that can generate significant additional cash flow at minimal cost, and a strong and experienced management team.

**Investment Risks Include:** High customer (limited number of cable providers) concentration, quality of programming, management execution and reduced household budgets for discretionary entertainment.

**Transaction Date:** July 2007

**Investment Update:** High Fidelity's affiliation agreement with Rogers Cable came into effect in December 2008 and much of the focus in 2009 was creatively working to add Rogers subscribers via two major advertising campaigns. The first was sponsoring the Masters in the spring 2009 and the second was a major tv/radio advertising campaign in November and December in conjunction with a free-view on Rogers and Bell. With the addition of Rogers, the addressable customer base has been significantly increased and the potential for stronger than anticipated subscriber growth is high.

The Company is pleased with the financial and overall performance of High Fidelity as it continues to build its brand and subscriber base. High Fidelity has access to a new set of potential customers through Rogers, continues to procure new programming and is working to add incremental revenues.

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### Bottle Manufacturing and Distribution

**Salbro Bottling Group** (Salbro) is an established designer, manufacturer and distributor of packaging components, specializing in glass and plastic bottles.

**C.A. Bancorp's Investment:** \$4.0 million investment (original \$3.6 million + \$0.4 million acquired from Total Strategy Fund in March 2009) structured as a secured debenture with a 12% per annum coupon, in addition to nominal cost warrants providing a base 12.5% equity interest in Salbro, with increases subject to Salbro's financial performance and contractual minimum rates of return.

**Rationale:** Growth capital investment in a company with a diversified customer base, an experienced management team, and a combination of complementary manufacturing and distribution businesses to reduce volatility and risk.

**Investment Risks Include:** Long-term economic slowdown, commodity prices (inputs and fuel), high customer concentration and management execution.

**Transaction Date:** February 2008

**Investment Update:** The packaging industry experienced a significant slowdown in late 2008 and early 2009 as overall consumer demand dropped and customers reduced inventories. However, Salbro experienced higher sales in the second half of 2009 as overall customer demand returned and a competitor left the market. The current order book is satisfactory as customers are holding normal inventory levels.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Industry

#### Company and Investment Overview

### Parking Payment Systems

**Digital Payment Technologies Corp.** (DPT) 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.

**C.A. Bancorp's Investment:** \$6.0 million investment structured as a three year secured debenture with a 12% coupon per annum, plus nominal cost warrants convertible into 25% to 35% of DPT's common shares (based on C.A. Bancorp's total invested capital and DPT's financial performance) on a fully diluted basis.

**Rationale:** Growth capital investment in a company with industry leading products and technology, servicing a growing North American marketplace of municipalities, universities and private parking lot operating companies.

**Investment Risks Include:** Supplier performance, product performance, slowdown in capital spending from municipalities and universities and management execution.

**Transaction Date:** November 2008

**Investment Update:** DPT completed a successful 2009 fiscal year. The industry continues to be active with a number of new municipal RFPs in the market for the replacement of single meter head units with multi-space pay stations. Additionally, the parking lot transaction market has been active with a number of small family owned lots selling to large parking operators. The company also has a strong sales pipeline from universities, municipalities and private operators which highlights that all the expected buyers for DPT's parking solutions are active. The company is focused on contracting and delivering against a number of awarded contracts from 2009 and building its sales pipeline as expectations for 2010 are to increase quarterly shipments.

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### Multi-Residential Real Estate

**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.

**C.A. Bancorp's Investment:** \$6.0 million, to acquire an 80% limited partnership interest in a partnership that acquired the Kingswood Estates property.

**Rationale:** Acquisition of a property that offers steady cash flow and significant upside potential through superior management, property improvements and unit upgrades.

**Investment Risks Include:** High vacancy rates, increased repair and maintenance costs, management execution, real estate capitalization rates, and availability of debt to finance properties.

**Transaction Date:** January 2008

**Investment Update:** The property manager, which to date has proven highly active and value-driven, has several ongoing initiatives that are expected to further increase net operating income. Property improvements, unit upgrades, and increases to rental income are continuing as planned (approximately 50% of the units completed to date). The manager also advanced the condominium conversion process in 2009. The manager has received a draft plan of condominium approval and expects to complete required works and registrations and begin realizing tax savings. In the meantime, renovations are expected to continue (at a rate that matches demand as the economy recovers) increasing rents, while water and energy savings attributable to the upgrades are expected to reduce utility expenses over time thereby further increasing net operating income (NOI).

In an otherwise depressed real estate market, multi-residential real estate is still an attractive asset class. The availability of credit (as multi-residential properties remain CMHC-backed) is keeping capitalization rates low relative to other real estate asset classes, which favours the value of Kingswood over time.

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### Investment Management

**Barlow Capital Management Inc.** (Barlow) is a fee-for-service boutique investment counsel and portfolio manager with an exclusive focus on providing endowment style investment management services to high net worth Canadian investors.

**C.A. Bancorp's Investment:** \$2.9 million to acquire 85% of Barlow's issued and outstanding common shares.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Industry

### Company and Investment Overview

**Rationale:** Platform investment in a niche asset manager that has developed tailored money management services to meet the complex demands of sophisticated high net worth clients.

**Investment Risks Include:** Customer acquisition and retention, investment performance, compliance and management execution.

**Acquisition Date:** July 2008

**Investment Update:** In the second quarter ended June 30, 2009, the Company recognized non-cash impairment charges of \$2.1 million related to the goodwill and intangible assets of the Company's investment in Barlow. The impairment charges were as a result of a reduction in assets under management in Barlow's private client business and a strategic decision to slow all money raising efforts in its pooled funds division. Subsequently, Barlow reduced the size of its operations, and specifically, its mutual fund business, by effecting a wind-up of its pooled funds. Barlow continues to manage a number of high net worth private clients as a going concern and is working on different opportunities to grow or maximize the value of its private client business.

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### Managed Entities

Currently, the Company is actively managing two entities: CRFC and Charter REIT. The entities combined have raised approximately \$105 million of investable capital and have approximately \$216 million in fee generating assets as at December 31, 2009. The entities generate management fees for the Company as well as distributions on the sponsorship capital that the Company has invested. The entities provide the Company with a platform for future growth which in turn are expected to generate increased fees and subsequently a higher rate of return on the Company's sponsor capital.

### Industry

### Fund/Entity

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#### Commercial Real Estate Lending

**C.A. Bancorp Canadian Realty Finance Corporation** (CRFC) is a publicly traded mutual fund corporation that provides investment exposure to a highly diversified portfolio of commercial real estate mortgages and loans with attractive yields.

**Assets under Management:** CRFC issued 1,540,000 Preferred Shares, Series 1 for aggregate gross proceeds of \$38.5 million providing investors with tax-efficient fixed cash distributions of \$1.69 or 6.75% per annum on a \$25.00 maturity value. CRFC has also issued approximately 3,666,000 subordinate Class A Shares for aggregate gross proceeds of \$36.9 million providing investors with tax-efficient cash distributions of 7.6% (yield is indicative and may vary over time) per annum on a \$10.00 issue price. CRFC also has 2,900,000 warrants outstanding, each of which entitles the holder to purchase one Preferred Share, Series 1 at a subscription price of \$23.75 at any time on or before 4:00 p.m. (Toronto time) on September 30, 2011 (Warrants).

**C.A. Bancorp Investment:** \$9.85 million in Class A Shares carried on the Company's balance sheet at \$8.9 million with an estimated fair value of \$7.4 million based on the closing bid price of \$7.61 per Class A Share on December 31, 2009. The Company also holds 200,000 Warrants.

**Ticker Symbols:** Preferred Shares, Series 1 (**RF.PR.A** on the TSX); Class A Shares (**RF.A** on the TSX) and Warrants to purchase Preferred Shares, Series 1 (**RF.WT** on the TSX).

**Preferred Shares, Series 1 Maturity Value:** \$25.00 per share in March 2018

**Class A Share Net Asset Value:** \$9.35 per share at December 31, 2009

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**Update:** During the first half of 2009, CRFC temporarily saw a substantial drop in the percentage of mortgage and loan transactions that met the risk parameters of the manager resulting in a large number of loan and mortgage applications being declined. The Manager believed it was prudent for CRFC to focus on preservation of capital given the scarcity of opportunities. Commencing in the second half of 2009, the manager began to see good quality high yielding commercial mortgage opportunities and again commenced advancing new mortgages and loans. Deal flow through early 2010 remains strong and

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

| Industry                        | Fund/Entity   |
|---------------------------------|---|
| Commercial Real Estate - Retail | <p data-bbox="342 275 1474 453">should deal flow materialize as expected the Manager anticipates it will use the balance of its cash holdings and, if necessary, the sale of some of its investment grade securities and proceeds from mortgage repayments to fund high quality higher yielding mortgages by April 2010. For a more detailed review of CRFC, please see CRFC's annual management report of fund performance (MRFP) for the period ended December 31, 2009. The MRFP can be found on CRFC's issuer profile on SEDAR at <a href="http://www.sedar.com">www.sedar.com</a>.</p> <p data-bbox="342 506 1474 653"><b>Charter Real Estate Investment Trust</b> (Charter REIT) is focused on acquiring a portfolio of retail and mixed-use retail community and neighbourhood centres, generally in the mid-market deal size range of \$10 to \$40 million, comprised of stable cash-flow and value added properties from both primary and secondary markets throughout Canada, with the principal goal of generating a reliable and growing yield for investors.</p> <p data-bbox="342 663 1474 726"><b>Assets under Management:</b> Charter REIT's portfolio includes ten retail properties located in Ontario and Quebec totalling approximately \$148 million (acquisition cost) in real estate assets.</p> <p data-bbox="342 737 1474 821"><b>C.A. Bancorp's Investment:</b> \$18.9 million or 33% of the issued and outstanding units of Charter REIT carried on the Company's balance sheet at \$7.5 million and with an estimated fair value of \$8.2 million based on the closing bid price of \$1.35 per unit on December 31, 2009.</p> <p data-bbox="342 831 992 863"><b>Ticker Symbol:</b> <b>CRH.UN</b> on the TSX Venture Exchange.</p> <p data-bbox="342 873 1474 936"><b>Update:</b> The global economic recession and credit crisis made 2009 a difficult year. As a result, for Charter REIT, 2009 was a year of internal focus. During the year, Charter REIT:</p> <ul data-bbox="342 947 1474 1272" style="list-style-type: none"><li>▪ successfully began the redevelopment of its Châteauguay property through the replacement of a 15,000 square foot cinema tenant with an 18,138 square foot Pharmaprix (Shoppers Drug Mart) store for a 15 year term and undertook significant façade improvements and upgraded the landscaping and exterior amenities of the centre;</li><li>▪ maintained strong portfolio occupancy at 95.1%, with approximately 92% of the portfolio leased to national and regional tenants;</li><li>▪ early renewed and extended its operating and acquisition facility for a two-year term, leaving no debt maturing in 2010; and,</li><li>▪ maintained a strong balance sheet, with a debt-to-gross book value ratio at December 31, 2009 of 62.7%.</li></ul> <p data-bbox="342 1283 1474 1425">Charter REIT will continue to focus on organic growth through the continued redevelopment of its Châteauguay property, as well as leasing vacant space and improving the tenant mix at the Méga Centre property and looking for a replacement tenant for the 23,000 square foot vacancy at its Place Val Est property. As well, Charter REIT has been actively looking for alternative ways to grow its asset base, in light of the difficult market conditions and in light of C.A. Bancorp's Strategic Review Process.</p> |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The following is a summary of (a) the Company's audited consolidated financial statements for the year ended December 31, 2009 and (b) the Company's financial position as at December 31, 2009, in each case, compared to the periods ended December 31, 2008 and December 31, 2007.

| <b>Results from Operations for Year Ending December 31</b>        | <b>2009</b>     | <b>2008</b>        | <b>2007</b>      |
|---|-----------------|--------------------|------------------|
| Total revenues  | \$ 5,395        | \$ 8,058           | \$ 7,238         |
| Net results of investments <sup>1</sup>                           | 5,769           | (17,853)           | (1,205)          |
| Expenses  | (8,653)         | (7,081)            | (7,918)          |
| Taxes and non-controlling interest                                | (417)           | 1,412              | 1,760            |
| Net earnings (loss) from continuing operations                    | 2,094           | (15,464)           | (125)            |
| Net earnings from discontinued operations                         | 28              | 1,105              | 142              |
| <b>Net earnings (loss)</b>  | <b>\$ 2,122</b> | <b>\$ (14,359)</b> | <b>\$ 17</b>     |
| <b>Earnings Per Common Share (EPS)</b>                            |                 |                    |                  |
| EPS from continuing operations – basic and diluted <sup>1</sup>   | \$ 0.08         | \$ (0.55)          | \$ (0.01)        |
| EPS from discontinued operations – basic and diluted <sup>1</sup> | 0.00            | 0.04               | 0.01             |
| <b>Net earnings (loss) per common share</b>                       | <b>\$ 0.08</b>  | <b>\$ (0.51)</b>   | <b>\$ (0.00)</b> |
| <b>Financial Position as at December 31</b>                       |                 |                    |                  |
| Cash and cash equivalents   | \$ 11,114       | \$ 1,245           | \$ 946           |
| Total assets as reported  | \$ 71,514       | \$ 147,778         | \$ 154,348       |
| Total assets (adjusted) <sup>2</sup>                              | \$ 71,514       | \$ 72,684          | \$83,809         |
| Total debt (adjusted) <sup>3</sup>                                | \$ 1,825        | \$ 5,178           | \$ -             |
| Total shareholders' equity  | \$ 67,642       | \$ 66,719          | \$ 82,516        |
| Number of common shares outstanding                               | 26,737          | 27,345             | 28,683           |
| <b>Per Common Share</b>   |                 |                    |                  |
| Net book value <sup>4</sup>                                       | \$ 2.53         | \$ 2.44            | \$ 2.88          |
| Closing market price  | \$ 1.33         | \$ 0.65            | \$ 1.92          |
| Market price discount to net book value                           | (47%)           | (73%)              | (33%)            |

<sup>1</sup> Includes gain on sale of AgriFinancial (net of tax) reclassified from discontinued operations (as reported under GAAP). See the cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A.

<sup>2</sup> Excludes the discontinued operations of AgriFinancial in Q4 2008 and Q3 2008. AgriFinancial (Financial Corp.) was sold on January 30, 2009 to a third party.

<sup>3</sup> Debt excludes the discontinued operations of AgriFinancial in Q4 2008 and Q3 2008.

<sup>4</sup> Net book value per share is a non-GAAP financial measure and is calculated as total shareholders' equity under GAAP divided by the number of common shares outstanding at year-end. See the cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Results of Operations Highlights*

The Company's operating results reflect (i) revenue recognized primarily from the income generated from the Company's investments in private entities and the management fees from the Company's managed entities and (ii) the expenses required to manage the Company's portfolio of invested capital. The Company's operations have increased over previous years as the Company invested substantially all of the capital from its two public financings primarily in private entities and off-balance sheet entities the Company manages (Managed Entities).

| 2009   | 2008   | 2007  |
|--|--|---|
| <p><b>Total revenues</b> were \$5.4 million: \$3.1 million from interest and investment income, \$2.0 million from asset management fees and \$0.3 from other fees and commissions.</p>  | <p><b>Total revenues</b> were \$8.1 million. \$6.1 million from interest and investment income, \$1.4 million from asset management fees and \$0.5 million from other fees and commissions.</p>  | <p><b>Total revenues</b> were \$7.2 million. \$4.1 million from interest and investment income, \$0.7 million from asset management fees, \$0.7 million from other fees and commissions and \$1.7 million from rental properties due to the consolidation of Charter REIT.</p>  |
| <p><i>Changes year-over –year: The Company's interest and investment income declined year over year as it consolidated the accounts of CRFC for an 8 month period in 2008. This was offset by an increase in management fees as assets under management increased in 2009.</i></p>   |  |   |
| <p>The Company did not consolidate the operations of any significant non-corporate entity in 2009.</p>   | <p>The Company consolidated the accounts of CRFC for the period from February 22, 2008 to September 12, 2008 (when the Company held 100% of CRFC's Class A Shares).</p>  | <p>The Company consolidated the accounts of Charter REIT for the period from February 23, 2007 to August 9, 2007 (when the Company held greater than 50% of Charter REIT's equity).</p>   |
| <p><b>Net results of investments</b> representing a gain of \$6.0 million (when including the sale of AgriFinancial) consisting primarily of realized \$7.0 million in net earnings from the discontinued operations of AgriFinancial, \$1.6 million change in unrealized gain on publicly traded investments, a \$0.3 million change in unrealized gain on investments in private entities offset by \$0.8 million in realized losses on the sale of publicly traded investments and \$2.1 million impairment loss on goodwill and intangible assets related to Barlow.</p> | <p><b>Net results of investments</b> representing a loss of \$17.9 million primarily as a result of \$7.9 million in realized losses on the sale of publicly traded investments, \$1.6 million in the change in unrealized losses on publicly traded investments, \$1.0 million change in unrealized losses on investments in private entities and \$6.6 million unrealized impairment loss on the Company's investment in Charter REIT.</p> | <p><b>Net results of investments</b> representing a loss of \$1.2 million primarily as a result of \$1.0 million in realized gains on the sale of publicly traded investments, a \$1.4 million gain on the dilution of investment in Charter REIT offset by a \$3.3 million change in unrealized losses on publicly traded investments, and a \$0.4 million loss on the equity participation of Charter REIT (after de-consolidation).</p>        |
| <p><b>Total expenses</b> were \$8.7 million consisting primarily of: \$3.0 million in employee costs, \$2.6 million in fees paid to Sentry Select, \$1.9 million in corporate and transaction costs, \$1.6 million in general and administration expenses and a \$0.7 million credit to stock based compensation.</p> <p>One-time expenses related to the Internalization and Strategic Review Process totalled \$2.8 million.</p>   | <p><b>Total expenses</b> were \$7.1 million consisting primarily of: \$0.5 million in employee costs, \$2.0 million in fees paid to Sentry Select, \$0.7 million and corporate and transaction costs, \$1.4 million in general and administration expenses, \$0.5 million in stock based compensation and \$1.8 million in interest expense.</p>   | <p><b>Total expenses</b> were \$7.9 million consisting primarily of: \$1.7 million in fees paid to Sentry Select, \$1.3 million and corporate and transaction costs, \$1.5 million in general and administration expenses, \$1.2 million in stock based compensation and \$1.0 million in interest expense. The Company also incurred \$0.8 million in depreciation and rental property expense related to the consolidation of Charter REIT.</p> |
| <p><b>Net earnings of \$2.1 million or \$0.08 per share</b> on a basic and fully diluted basis.</p>  | <p><b>Net loss of \$14.4 million or \$0.51 per share</b> on a basic and fully diluted basis.</p>   | <p><b>Net earnings of \$0.02 million or \$0.00 per share</b> on a basic and fully diluted basis.</p>  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Balance Sheet Highlights*

The Company's core assets are its investments in private entities and its investments in managed entities. These investments generate the majority of the Company's revenues and have been made with an objective of generating gross investment returns of approximately 15% to 25% over the investment hold period. As at December 31, 2009, the Company has working capital of approximately \$12.3 million on its balance sheet available for expected future commitments, new investments and general working capital purposes.

| December 31, 2009  | December 31, 2008  | December 31, 2007  |
|--|--|--|
| <b>Total assets</b> of \$71.5 million.   | <b>Total assets</b> of \$72.7 million excluding the discontinued operations of AgriFinancial. (Total assets of \$147.8 million.)   | <b>Total assets</b> of \$83.8 million excluding the discontinued operations of AgriFinancial. (Total assets of \$154.3 million.) |
| <p><i>Changes year-over –year: The decrease in assets compared to December 31, 2008 is primarily the result of the gain on the sale of AgriFinancial in Q1 2009 of \$7.0 million offset by \$2.1 million in unrealized losses on the impairment of goodwill and intangibles (Barlow), \$2.5 million reversal of future income taxes, \$2.1 million in one-time expenses related to the internalization of the Company's management and administration functions and the reduction of the Company's investment in Charter REIT by \$1.0 million due to equity accounting.</i></p> |  |  |
| <b>Total debt</b> of \$1.8 million (excluding short-term payables). The Company has a \$1.8 million note payable to CRFC over six years.   | <b>Total debt</b> of \$5.2 million (excluding short-term payables and the discontinued operations of AgriFinancial). The Company had \$2.6 million that was due to broker and a \$2.6 million note payable to CRFC over seven years. | <b>No debt</b> (excluding short-term payables and the discontinued operations of AgriFinancial).                                 |
| <p><i>Changes year-over –year: The Company paid the debt owing to broker in the first quarter 2009 after it completed the sale of AgriFinancial.</i></p>   |  |  |
| <b>Total shareholders' equity</b> of \$67.6 million.   | <b>Total shareholders' equity</b> of \$66.7 million.   | <b>Total shareholders' equity</b> of \$82.5 million.   |
| <p><i>Changes year-over –year: The increase in shareholders' equity compared to 2008 is primarily as a result of the gain from the sale of AgriFinancial in Q1 2009 offset by the impairment loss of goodwill and intangibles related to Barlow and the one-time expenses related to the Internalization and Strategic Review Process. The decrease in shareholders' equity in 2008 compared to 2007 is primarily as a result of the Company's 2008 loss from net results in investments.</i></p>  |  |  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Carrying Value Analysis and Expected Realization Dates*

The following is a breakdown of: (a) the carrying value of each of the Company's assets and liabilities and associated value per share as at December 31, 2009; (b) the approximate annual cash flows from each investment; and, (c) the expected time of value realization for each asset. The Company believes that the future values of the investments in private entities will be higher in most cases at their realization dates than their December 31, 2009 carrying values.

| Asset/Liability                                 | Carrying Value   | Value per share | Est. 2010 cash flows | Expected realization date <sup>1</sup> |      |      |      |     |
|---|------------------|-----------------|----------------------|--|------|------|------|-----|
|   |                  |                 |                      | 2010                                   | 2011 | 2012 | 2013 | n/a |
| <b>Liquid Net Assets (Working Capital)</b>      |                  |                 |                      |  |      |      |      |     |
| Cash and cash equivalents                       | \$ 11,114        | \$ 0.42         | \$ -                 | √                                      |      |      |      |     |
| Accounts receivable                             | 1,659            | 0.06            | -                    | √                                      |      |      |      |     |
| Loans   | 58               | 0.00            | -                    | √                                      |      |      |      |     |
| Publicly traded investments                     | 1,718            | 0.06            | 85                   | √                                      |      |      |      |     |
| Accounts payable and accruals                   | (1,935)          | (0.07)          | -                    | √                                      |      |      |      |     |
| Debt to CRFC (due within the year)              | (317)            | (0.01)          | -                    | √                                      |      |      |      |     |
| <b>Sub-Total</b>                                | <b>\$ 12,297</b> | <b>\$ 0.46</b>  | <b>\$ 85</b>         |  |      |      |      |     |
| <b>Investments in Private Entities</b>          |                  |                 |                      |  |      |      |      |     |
| High Fidelity (debenture & PIK interest)        | \$ 2,543         | \$ 0.10         | \$ -                 | √                                      |      |      |      |     |
| High Fidelity (equity & convert. debenture)     | 3,987            | 0.15            | 105                  |  |      | √    |      |     |
| DPT (debenture & PIK interest)                  | 5,417            | 0.20            | 480                  |  | √    |      |      |     |
| DPT (25% to 35% equity interest)                | 2,300            | 0.09            | -                    |  |      | √    |      |     |
| Kingswood <sup>2</sup> (80% LP equity interest) | 6,300            | 0.24            | -                    |  | √    |      |      |     |
| Everus (Now BXI – convertible note)             | 1,120            | 0.04            | -                    |  | √    |      |      |     |
| Salbro (debenture)                              | 3,631            | 0.14            | 480                  |  |      | √    |      |     |
| Salbro (12.5% equity interest)                  | 498              | 0.02            | -                    |  |      | √    |      |     |
| Windward (35% equity interest)                  | 858              | 0.03            | -                    |  |      | √    |      |     |
| Birmingham (33-45% equity interest)             | 11,000           | 0.41            | 860                  |  |      |      | √    |     |
| <b>Sub-Total</b>                                | <b>\$ 37,654</b> | <b>\$ 1.42</b>  | <b>\$ 1,925</b>      |  |      |      |      |     |
| <b>Investments in Managed Entities</b>          |                  |                 |                      |  |      |      |      |     |
| Charter REIT <sup>3</sup>                       | \$ 7,502         | \$ 0.28         | \$ 1,400             |  |      |      |      | √   |
| CRFC <sup>3</sup>                               | 8,900            | 0.33            | 1,600                |  |      |      |      | √   |
| <b>Sub-Total</b>                                | <b>\$ 16,402</b> | <b>\$ 0.61</b>  | <b>\$ 3,000</b>      |  |      |      |      |     |
| Debt to CRFC                                    | (1,508)          | \$ (0.06)       | -                    |  | √    | √    | √    |     |
| All other <sup>4</sup>                          | 2,797            | 0.10            | 295                  |  |      |      |      | √   |
| <b>GRAND TOTAL<sup>5,6</sup></b>                | <b>\$ 67,642</b> | <b>\$ 2.53</b>  | <b>\$ 5,305</b>      |  |      |      |      |     |

<sup>1</sup> See summary of expected cash returns on page 6 of this MD&A and "Summary of Investments" beginning on page 11 for additional information regarding realization dates.

<sup>2</sup> An additional \$1.2 million has been committed to Kingswood in the form of a mortgage investment bearing interest at a rate of 10%.

<sup>3</sup> The Company's interests in Charter REIT and CRFC can be marketed for sale at any time.

<sup>4</sup> Primarily intangible asset related to the management contract of CRFC.

<sup>5</sup> Carrying Value equals the Company's shareholders' equity under GAAP.

<sup>6</sup> Excludes the Company's tax loss carryforwards of \$9.2 million which would be available to offset future taxable income.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS FOR 2009

The following is an analysis of the Company's results of operations for the twelve month period ended December 31, 2009 based on a GAAP basis of presentation. This analysis should be read in conjunction with the unaudited consolidated financial statements for the year ended December 31, 2009 and the corresponding notes thereto.

The consolidated financial statements include the accounts of C.A. Bancorp and its wholly-owned subsidiaries: CAB Ltd., Realty Finance, Realty Management, Barlow Holdings, Telecom Inc., its majority-ownership in Financial Corp. for the period from October 12, 2007 to January 30, 2009, and CRFC for the period from February 22, 2008 to September 12, 2008 (when the Company held 100% of CRFC's Class A Shares). For financial reporting purposes in the fourth quarter 2008, the operations of Financial Corp. were deemed to be "discontinued" due to the sale of Financial Corp. and its wholly-owned subsidiary AgriFinancial to a third party on January 30, 2009. See the cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A. All intercompany transactions and balances have been eliminated in these consolidated statements in accordance with GAAP.

#### Revenues

|                                | <i>Year ended December 31</i> |                 |                    |
|--------------------------------|-------------------------------|-----------------|--------------------|
|                                | <b>2009</b>                   | <b>2008</b>     | <b>Inc / (Dec)</b> |
| Interest and investment income | \$ 3,124                      | \$ 6,098        | \$ (2,974)         |
| Asset management fees          | 1,976                         | 1,433           | 543                |
| Other fees and commissions     | 295                           | 527             | (232)              |
| <b>Total</b>                   | <b>\$ 5,395</b>               | <b>\$ 8,058</b> | <b>\$ (2,663)</b>  |

Consolidated revenues declined by \$2.7 million for the year ended December 31, 2009 compared to the same period in 2008. The decrease was primarily driven by a decline in investment income from the Company's public portfolio as the Company substantially liquidated its public portfolio throughout 2008 as capital was allocated to investments in private entities and the acquisition of Class A shares of CRFC. This was offset by an increase in asset management fees in 2009 as the Company's assets under management increased throughout 2008.

Additionally, it should be noted that the Company also generated cash flow of \$1.7 million in 2009 from distributions received from its investments in Charter REIT and CRFC that are not classified as interest and investment income but as a return of capital for accounting purposes and therefore are not recognized as revenue.

#### Net Results of Investments

|  | <i>Year ended December 31</i> |             |                    |
|--|-------------------------------|-------------|--------------------|
|  | <b>2009</b>                   | <b>2008</b> | <b>Inc / (Dec)</b> |
| Realized loss on sale of publicly traded investments   | \$ (781)                      | \$ (7,974)  | \$ 7,193           |
| Change in unrealized gain (loss) on publicly traded investments                                    | 1,630                         | (1,621)     | 3,251              |
| Change in unrealized gain (loss) on investments in private entities, held for trading <sup>1</sup> | 337                           | (976)       | 1,313              |

<sup>1</sup> Includes the impairment loss on Everus.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

|   | <i>Year ended December 31</i> |                    |                    |
|---|-------------------------------|--------------------|--------------------|
|   | <b>2009</b>                   | <b>2008</b>        | <b>Inc / (Dec)</b> |
| Gain on sale of AgriFinancial <sup>1</sup>                          | \$ 6,963                      | -                  | \$ 6,963           |
| Impairment loss on goodwill and intangible assets related to Barlow | (2,070)                       | -                  | (2,070)            |
| Equity participation in other corporate entities                    | (82)                          | (18)               | (64)               |
| Equity participation in CRFC  | 342                           | (118)              | 460                |
| Equity participation in Charter REIT                                | (542)                         | (522)              | (20)               |
| Impairment loss in Charter REIT                                     | -                             | (6,624)            | 6,624              |
| <b>Total</b>  | <b>\$ 5,769</b>               | <b>\$ (17,853)</b> | <b>\$ 23,622</b>   |

Consolidated net results of investments resulted in a gain of \$5.8 million for the year ended 2009 compared to a loss of \$17.9 million for the year ended 2008.

For the year ended 2009 (using the Non-GAAP figures as adjusted on page 29 of this MD&A), the Company recognized a change in unrealized gain on investments in private entities and realized gains aggregating to \$7.2 million. The Company realized a gain on the sale of AgriFinancial of \$6.9 million. The Company recognized net unrealized gains of \$0.3 million comprised of unrealized gains in High Fidelity, Birmingham, and DPT (see "Investment in High Fidelity HDTV Inc.", "Investment in Birmingham Foundation Solutions", and "Investment in Digital Payment Technologies Inc." below) which was offset by a write-down in the carrying value of the Company's investment in Everus (see "Investment in Everus Communications Inc." below).

In addition to the investments in private entities the Company had a change in unrealized gain on publicly traded investments of \$1.6 million as the public equity markets increased substantially in value in 2009 which was offset by a realized loss on the sale of publicly traded investments of \$0.8 million. The Company also took a \$2.1 million impairment loss on goodwill and intangible assets related to the Company's investment in Barlow.

### **Sale of AgriFinancial Canada Corp.**

In the first quarter 2009, the Company completed the sale of AgriFinancial to Bank West, a wholly-owned subsidiary of Western Financial Group Inc. The Company recognized an after tax \$6.9 million gain on the sale in the quarter. The Company originally invested \$9.5 million to acquire a 90% equity interest in the business and over the sixteen months that it owned AgriFinancial, the Company realized \$19.5 million in total cash proceeds representing a \$10 million pre-tax capital gain (2x invested capital).

### **Investment in Barlow Capital Management Inc.**

In the second quarter of 2009, the Company recognized non-cash impairment charges of \$2.1 million related to the goodwill and intangible assets of the Company's investment in Barlow. The impairment charges were as a result of a reduction in assets under management in Barlow's private client business and a strategic decision made to eliminate its mutual fund division.

<sup>1</sup> The gain on sale of AgriFinancial (net of tax) reclassified from discontinued operations (as reported under GAAP). See the cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Investment in High Fidelity HDTV Inc.

In the third quarter 2009, the Company recognized an unrealized gain of \$1.2 million related to the equity warrants received on its investment in High Fidelity. The unrealized gain was the result of the following transactions: On August 11, 2009, the Company invested an additional \$1.5 million in High Fidelity by way of a convertible debenture. High Fidelity used the cash to partially repay the existing debenture held by the Company by the same amount of \$1.5 million. Concurrent with these transactions, the Company's equity option in High Fidelity was eliminated and the Company's equity interest in High Fidelity increased from 10% to 13% by way of the issuance of warrants. The convertible debenture was classified as held-for-trading and fair valued at \$1.5 million.

In the fourth quarter ended December 31, 2009, the Company recognized an unrealized gain of \$0.55 million related to the equity (warrants) investment in High Fidelity as a result of an increased valuation based upon superior financial performance over the past twelve months, future prospects, as well as High Fidelity's financial position as at December 31, 2009.

### Investment in Bermingham Foundation Solutions

In the fourth quarter 2009, the Company recognized an unrealized gain of \$1.0 million related to its investment in Bermingham as a result of an increased valuation based upon superior financial performance over the past twenty four months, future prospects, as well as Bermingham's financial position (balance sheet) as at December 31, 2009.

### Investment in Kingswood Estates

In the fourth quarter 2009, the Company recognized an unrealized gain of \$0.3 million related to its equity investment in Kingswood as a result of an increased overall valuation of the properties based upon an increase in the net operating income and stabilization of capitalization rates in southwestern Ontario.

### Investment in Digital Payment Technologies Inc.

In the fourth quarter 2009, the Company recognized an unrealized gain of \$1.1 million related to its equity (warrants) investment in DPT as a result of an increased valuation based upon superior financial performance over the past twelve months, future prospects, as well as DPT's financial position as at December 31, 2009.

### Investment in Everus Communications Inc.

In the first quarter 2009, a fair value adjustment of \$0.4 million was taken on the Company's investment in Everus and recognized as an unrealized loss due to slower than anticipated growth rates at Everus since the time the investment was made and the fact that the debenture has been restructured whereby all interest payments due after October 21, 2008 would be capitalized.

In the second quarter 2009, an additional fair value adjustment of \$0.5 million was taken on the Company's investment in Everus and recognized as an unrealized loss. After reviewing its strategic options, the Company sought to enforce its rights under the terms of its debenture with Everus. The Company commenced legal proceedings seeking to have a court appointed interim receiver monitor the Everus business and manage a process to sell the business. The interim receiver was appointed by the court on July 31, 2009.

In the third quarter 2009, an additional fair value adjustment of \$0.5 million was taken on the Company's investment in Everus and recognized as an unrealized loss. In addition, the Company provided Everus with \$0.25

## MANAGEMENT'S DISCUSSION AND ANALYSIS

million in debtor-in-possession financing and incurred approximately \$0.3 million in professional fees related to the receivership proceedings.

In the fourth quarter 2009, an additional fair value adjustment of \$2.6 million was taken on the Company's investment in Everus and recognized as an unrealized loss. The Company also incurred an additional \$0.1 million in professional fees related to the receivership proceedings. Subsequent to year end 2009, the interim receiver completed a sale of substantially all the assets and business of Everus to BXI. The Company, as the senior secured creditor of Everus, received approximately \$1.2 million, subject to certain post-closing adjustments, structured as a promissory note, convertible in common shares of BXI within the next twelve months.

### *Expenses, Income Tax and Non-Controlling Interests*

|   | <i>Year ended December 31</i> |                 |                    |
|---|-------------------------------|-----------------|--------------------|
|   | <b>2009</b>                   | <b>2008</b>     | <b>Inc / (Dec)</b> |
| Employee costs  | \$ 3,011                      | \$ 512          | \$ 2,499           |
| Fees paid to Sentry Select – excluding the Internalization Termination Fee <sup>1</sup> | 1,163                         | 1,991           | (828)              |
| Fees paid to Sentry Select – the Internalization Termination Fee (one-time)             | 1,435                         | -               | 1,435              |
| General and administration  | 1,592                         | 1,432           | 160                |
| Corporate and transaction costs – General   | 520                           | 736             | (216)              |
| Corporate and transaction costs – Internalization (one-time)                            | 654                           | -               | 654                |
| Corporate and transaction costs – Strategic Review Process (one-time)                   | 733                           | -               | 733                |
| Interest expense  | 177                           | 1,842           | (1,665)            |
| Depreciation and amortization   | 61                            | 21              | 40                 |
| Investment management fee   | -                             | 17              | (17)               |
| Stock based compensation  | (693)                         | 530             | (1,223)            |
| Provision (recovery) for income taxes   | 526                           | (1,398)         | 1,924              |
| Non-controlling interests   | (109)                         | (14)            | (95)               |
| <b>Total</b>  | <b>\$ 9,070</b>               | <b>\$ 5,669</b> | <b>\$ 3,401</b>    |

The Company's consolidated expenses, taxes and non-controlling interests increased by \$3.4 million for the year ended December 31, 2009 compared to the same period in 2008. For the year ended December 31, 2009, the Company incurred or accrued one-time expenses of \$2.1 million related to the Internalization (Termination fee of \$1.4 million and other one-time expenses related to the Internalization of \$0.7 million) and \$0.7 million related to the hostile take-over bid and Strategic Review Process. Expenses also increased by \$1.7 million as a result of the assumption of employees and other costs that were previously paid for by Sentry Select. The increase in expenses was offset by a decrease in interest expense of \$1.7 million when the Company consolidated the accounts of CRFC in 2008, and a \$1.2 million decrease in stock based compensation. The Company also incurred an additional \$1.9 million in tax expense as compared to 2008.

<sup>1</sup> These fees were paid in accordance with the terms of the management and administration agreements with Sentry Select, terminated in accordance with the Internalization. For a description of the services provided thereunder, please see the notes to the audited annual financial statements for the year ended December 31, 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOURTH QUARTER RESULTS

During the fourth quarter ended December 31, 2009, the Company generated consolidated revenues of \$1.4 million compared to \$1.7 million in the fourth quarter 2008. The year-over-year decline can be attributed to a decrease in interest income in the form of distributions from the public portfolio as the Company significantly reduced its exposure to the public portfolio during the fourth quarter 2008 and allocated the capital to investments in private entities.

The Company had a net gain on investments of \$0.6 million in the fourth quarter 2009 compared to a net loss of \$11.2 million in the fourth quarter 2008. The net gain resulted from unrealized gains on publicly traded investments and on investments in private entities. In the fourth quarter 2008, the Company realized an impairment of the Company's investment in Charter REIT of \$6.6 million, a realized loss on the Company's public portfolio investments of \$5.7 million, a change in unrealized gain on the public portfolio investments of \$2.5 million and a change in unrealized loss on the investments in private entities of \$1.2 million.

The Company recorded a small loss of \$0.1 million for the three months ended December 31, 2009, compared to a net loss of \$10.9 million or loss per share of \$0.39 on a basic and fully diluted basis in the corresponding period of 2008.

### SUMMARY OF QUARTERLY RESULTS

*The following is a summary of the Company's results for the last eight quarters.*

|  | 2009             |            |            |           | 2008        |           |            |            |
|--|------------------|------------|------------|-----------|-------------|-----------|------------|------------|
|  | Q4               | Q3         | Q2         | Q1        | Q4          | Q3        | Q2         | Q1         |
| Revenue  | <b>\$ 1,369</b>  | \$ 1,281   | \$ 1,397   | \$ 1,348  | \$ 1,696    | \$ 2,480  | \$ 2,103   | \$ 1,779   |
| Net results of investments <sup>1</sup>          | <b>609</b>       | 75         | (1,501)    | 6,586     | (11,246)    | (1,705)   | (1,723)    | (3,179)    |
| Expenses   | <b>(2,181)</b>   | (3,134)    | (1,772)    | (1,566)   | (1,584)     | (2,033)   | (1,970)    | (1,494)    |
| Non-controlling interests                        | <b>52</b>        | 34         | 15         | 8         | 11          | 3         | -          | -          |
| Net tax recovery (provision)                     | <b>12</b>        | (154)      | 41         | (425)     | (92)        | 617       | 321        | 552        |
| Net loss from continuing operations              | <b>(139)</b>     | (1,898)    | (1,820)    | 5,951     | (11,215)    | (638)     | (1,269)    | (2,342)    |
| Net earnings (loss) from discontinued operations | -                | -          | -          | 28        | 348         | 392       | 123        | 242        |
| Net (loss) earnings                              | <b>\$ (139)</b>  | \$ (1,898) | \$ (1,820) | \$ 5,979  | \$ (10,867) | \$ (246)  | \$ (1,146) | \$ (2,100) |
| Weighted avg. # of shares                        |                  |            |            |           |             |           |            |            |
| Basic  | <b>26,737</b>    | 26,737     | 26,944     | 27,275    | 27,375      | 28,141    | 28,164     | 28,471     |
| Diluted  | <b>26,737</b>    | 26,737     | 26,944     | 27,275    | 27,375      | 28,141    | 28,164     | 28,471     |
| EPS from continuing operations – basic/diluted   | <b>\$ (0.01)</b> | \$ (0.07)  | \$ (0.07)  | \$ 0.22   | \$ (0.41)   | \$ (0.02) | \$ (0.04)  | \$ (0.08)  |
| EPS from discontinued operations – basic/diluted | -                | -          | -          | -         | 0.02        | 0.01      | 0.00       | 0.01       |
| Net (loss) earnings per share                    | <b>\$ (0.01)</b> | \$ (0.07)  | \$ (0.07)  | \$ 0.22   | \$ (0.39)   | \$ (0.01) | \$ (0.04)  | \$ (0.07)  |
| Net book value <sup>2</sup>                      | <b>\$67,642</b>  | \$ 67,849  | \$ 69,815  | \$ 72,489 | \$ 66,719   | \$ 77,706 | \$ 78,360  | \$ 80,008  |
| Common shares                                    | <b>26,737</b>    | 26,737     | 26,750     | 27,133    | 27,345      | 27,541    | 27,891     | 28,338     |

<sup>1</sup> Includes gain on sale of AgriFinancial (net of tax) reclassified from discontinued operations (as reported under GAAP). See cautionary statement regarding the use of Non-GAAP financial measures on page 2 of the MD&A.

<sup>2</sup> Net book value per share is a non-GAAP financial measure and is calculated as total shareholders' equity under GAAP divided by the number of common shares outstanding at year-end.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

|                                       | 2009            |           |           |          | 2008      |           |           |           |
|---------------------------------------|-----------------|-----------|-----------|----------|-----------|-----------|-----------|-----------|
|                                       | Q4              | Q3        | Q2        | Q1       | Q4        | Q3        | Q2        | Q1        |
| outstanding                           |                 |           |           |          |           |           |           |           |
| Net book value per share <sup>1</sup> | <b>\$2.53</b>   | \$ 2.54   | \$ 2.61   | \$ 2.67  | \$ 2.44   | \$ 2.82   | \$ 2.81   | \$ 2.82   |
| Total assets <sup>2</sup>             | <b>\$71,514</b> | \$ 71,938 | \$ 73,685 | \$76,171 | \$147,778 | \$182,308 | \$242,212 | \$206,258 |

Quarterly revenues have decreased relative to 2008 due to decreased revenues from investment and interest income as a result of the Company having much of its capital invested in a portfolio of publicly traded investments. The Company also had higher revenues (and expenses) in the second and third quarters of 2008 as the Company consolidated the financial statements of CRFC for the period from February 22, 2008 to September 12, 2008 (when the Company held 100% of CRFC's Class A Shares). Beginning in Q4 2008 and throughout 2009, the Company reduced its exposure to public investments which has reduced its investment income. The capital from the sale of the Company's public investments has been redeployed to more illiquid private investments that have less current income but have a greater expected long-term capital gain return profile. Quarterly revenues in 2009 were relatively flat quarter over quarter as the Company's invested capital was stable throughout the year.

Net results of investments vary on a quarter-to-quarter basis due to realized gains or losses on investments but also unrealized gains or losses on investments being measured at fair value on the balance sheet (See "Net Results of Investments" above).

In the second and third quarter of 2009, the Company incurred or accrued one-time expenses related to the Internalization, and in the fourth quarter of 2009, the Company incurred or accrued one-time expenses related to the hostile take-over bid and Strategic Review Process. See "Expenses, Income Tax and Non-Controlling Interest" above.

### LIQUIDITY, CAPITAL RESOURCES AND OFF-BALANCE SHEET ARRANGEMENTS

*The following is an analysis of the liquidity, capital resources and off-balance sheet arrangements of the Company and should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2009 and the corresponding notes thereto and the audited consolidated financial statements for the year ended December 31, 2008 and the corresponding notes thereto.*

#### **Liquidity**

The Company had liquid net assets of approximately \$12.3 million at December 31, 2009. The Company's cash equivalents of \$11.1 million consist of overnight deposits with Royal Bank of Canada, CIBC Prime Brokerage, and Canaccord Capital Inc.

<sup>1</sup> Net book value per share is a non-GAAP financial measure calculated by dividing net book value (shareholders' equity under GAAP) by the number of shares outstanding at the period end in question. The Company provides this information as it is a commonly sought after financial metric by existing shareholders. See cautionary statement regarding the use of Non-GAAP financial measures on page 2 of the MD&A.

<sup>2</sup> The Company owned its interest in Financial Corp. (AgriFinancial) from October 2007 to January 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company calculates its liquid net assets as follows:

| <b>Liquid Net Assets</b>                                  | <b>December 31, 2009</b> | <b>December 31, 2008</b> |
|---|--------------------------|--------------------------|
| Cash and cash equivalents                                 | \$ 11,114                | \$ 1,245                 |
| Accounts receivable                                       | 1,659                    | 1,132                    |
| Cash held as collateral                                   | -                        | 700                      |
| Mortgages and loans                                       | 58                       | 104                      |
| Publicly traded investments                               | 1,718                    | 2,024                    |
| Accounts payable and accrued liabilities                  | (1,935)                  | (721)                    |
| Due to broker   | -                        | (2,600)                  |
| Portion of note payable to CRFC due in next twelve months | (317)                    | (382)                    |
| <b>Total</b>  | <b>\$ 12,297</b>         | <b>\$ 1,502</b>          |

The Company believes it has sufficient working capital to support the Company's operations. The Company is break-even on an adjusted cash flow from normal operations (including cash flow from operations plus distributions from CRFC and Charter REIT) on an annual basis. Cash flow from operations may increase over time as the Company invests its available capital.

Some of the Company's initiatives may involve the use of credit facilities, short-term borrowings or debt structures at the level of a target investment. The Company may also consider a short to medium-term operating facility to allow for greater financial flexibility.

### *Capital Resources*

The Company has no long-term debt, capital lease obligations or other long-term obligations at the parent-company level other than the repayment of the note payable to CRFC and operating lease payments as detailed in the chart below. The Company expects that the management fees earned on CRFC will be sufficient to pay for all the principal and interest payments due on the note payable. In connection with the Internalization, the Company entered into a sublease for its office space and assumed various equipment leases.

| <b>Obligations</b>                      | <b>Payment Due Period</b>   |                  |                           | <b>Total</b>    |
|---|-----------------------------|------------------|---------------------------|-----------------|
|   | <b>Less than 1<br/>year</b> | <b>1-3 years</b> | <b>Beyond 3<br/>years</b> |                 |
| Note payable to CRFC                    | \$ 317                      | \$ 634           | \$ 874                    | \$ 1,825        |
| Future minimum operating lease payments | 290                         | 838              | 210                       | 1,338           |
| <b>Total</b>                            | <b>\$ 607</b>               | <b>\$ 1,472</b>  | <b>\$ 1,084</b>           | <b>\$ 3,163</b> |

The Company has the following additional contractual obligations.

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 CRFC Preferred Shares exceeds the tangible net book value of the CRFC Class A Shares 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).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's Board, in the Directors' Circular dated December 21, 2009 which was issued in response to the hostile take-over bid launched in December 2009, 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 to provide for certain protections customary in the context of a take-over transaction. Subsequent to year end, retention agreements were entered into providing that existing severance obligations be triggered following a change of control if the employee was constructively dismissed and that members of management shall receive an additional retention bonus of one-third of annual base salary payable on the earlier of immediately prior to a change of control or June 6, 2010. The Board determined such measures were in the best interests of the Company, in order to provide reasonable and customary protection for, and incentive to remain, to key members of the management group. In aggregate, the amount of retention bonuses is approximately \$0.46 million.

### *Share Capital and Options Outstanding*

As at December 31, 2009, a total of approximately 26.73 million (December 31, 2008 – 27.35 million) common shares were outstanding with the Company reporting a net book value of \$67.6 million (December 31, 2008 – \$66.7 million).

From inception through to August 17, 2009, 0.9 million common shares have been repurchased and cancelled through the Company's normal course issuer bid program (NCIB) at an average price (including commission) of \$1.86 per common share. During this time, a total of approximately \$1.7 million of the Company's capital has been spent effecting these repurchases through the NCIB.

Since inception and through to its completion in June, 2009, 1.44 million common shares were repurchased and cancelled through the Company's mandatory market purchase program (MMPP) at an average price (including commission) of \$1.17 per common share. During this time, a total of approximately \$1.7 million of the Company's capital has been spent effecting these repurchases through the MMPP.

The Company had incentive stock options to purchase common shares outstanding as at December 31, 2009. The table that follows summarizes those options. No stock options were "in-the-money", otherwise stated, none had a positive intrinsic value.

|                             | <b>Number</b> | <b>Weighted Average Exercise Price</b> | <b>Number of Options "In-the-Money"</b> |
|-----------------------------|---------------|--|---|
| Optioned shares outstanding | 1.2 million   | \$3.21                                 | Nil                                     |
| Optioned shares vested      | 1.2 million   | \$3.21                                 | Nil                                     |

Subsequent to year end and in the context of the Strategic Review Process, the Company issued units to its employees under a short term incentive plan (STIP). The purpose of the STIP was to provide an incentive plan for employees in the context of the hostile take-over bid and the Strategic Review Process initiated in response thereto, to reward such employees for their leadership and contribution in achieving a value-maximizing result from the Strategic Review Process. The Company awarded an aggregate of 232,000 units under the STIP. Each unit entitles the holder to receive, immediately prior to a change of control, and on and subject to the terms of the STIP, an amount equal to the difference between the price per share received on a sale of the Company and a base price of \$1.11.

### *Off-Balance Sheet Arrangements*

The Company currently has no off-balance sheet arrangements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GAAP TO NON-GAAP RECONCILIATION

The following is a reconciliation of the GAAP figures to Non-GAAP financial measures for the results from operations for year ending December 31, 2009:

| <b>Results from Operations for Year Ending Dec 31, 2009</b> | <b>GAAP</b>     | <b>Adjustments</b> | <b>Non-GAAP</b> |
|---|-----------------|--------------------|-----------------|
| Total revenues  | \$ 5,395        | \$ -               | \$ 5,395        |
| Net results of investments <sup>1</sup>                     | (1,166)         | 6,935              | 5,769           |
| Expenses  | (8,653)         | -                  | (8,653)         |
| Taxes and non-controlling interest                          | (417)           | -                  | (417)           |
| Net earnings (loss) from continuing operations              | (4,841)         | -                  | 2,094           |
| Net earnings from discontinued operations                   | 6,963           | (6,935)            | 28              |
| <b>Net earnings</b>   | <b>\$ 2,122</b> | <b>\$ -</b>        | <b>\$ 2,122</b> |
| <b>Earnings Per Common Share (EPS)</b>                      |                 |                    |                 |
| EPS from continuing operations – basic and diluted          | \$ (0.18)       | \$ 0.26            | \$ 0.08         |
| EPS from discontinued operations – basic and diluted        | 0.26            | (0.26)             | -               |
| <b>Net earnings per common share</b>                        | <b>\$ 0.08</b>  | <b>\$ -</b>        | <b>\$ 0.08</b>  |

### TRANSACTIONS WITH RELATED PARTIES

The following is a summary of the transactions with related parties in 2009:

Effective February 1, 2009, C.A. Bancorp and Sentry Select reached an agreement providing for a reduction in the management fee paid to Sentry Select by C.A. Bancorp pursuant to the terms of an amended and restated management agreement between C.A. Bancorp and Sentry Select (the Management Agreement). Under the Management Agreement, the annual management fee paid to Sentry Select by C.A. Bancorp was reduced from 1.50% to 1.10% of C.A. Bancorp's financial statement capital (net assets) under Canadian GAAP. C.A. Bancorp estimated that the reduction in the annual management fee will provide a cost savings to C.A. Bancorp of approximately \$0.3 million per annum.

In February 2009, C.A. Bancorp also announced that it will reimburse Sentry Select for the salaries (including bonuses and benefits) of certain individuals whose full-time services were provided to Charter REIT by Sentry Select, on behalf of C.A. Bancorp. The reimbursement followed receipt by C.A. Bancorp of a notice from Sentry Select requesting reimbursement under the terms of an amended and restated administration agreement between the parties (the Administration Agreement). As approved by the Independent Directors of C.A. Bancorp, this change became effective February 1, 2009. C.A. Bancorp, through its wholly-owned subsidiary, Realty Management, is obligated to provide certain services and personnel to Charter REIT. The salaries (including bonuses and benefits) of such individuals had, prior to February 2009, been borne by Sentry Select under the terms of the Administration Agreement.

On March 6, 2009, the Company completed the purchase of the investments in private entities (Birmingham, High Fidelity and Salbro) held by Total Strategy Fund for a total purchase price of approximately \$2.6 million which represented the cost of the investments plus any accrued distributions. The Company was the manager of Total Strategy Fund from its inception until its termination effective March 31, 2009. The Company made an

<sup>1</sup> Includes gain on sale of AgriFinancial (net of tax) reclassified from discontinued operations (as reported under GAAP). See the cautionary statement regarding use of Non-GAAP financial measures on page 2 of this MD&A.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

offer to purchase Total Strategy Fund's private investments following a vote by Total Strategy Fund's unitholders to liquidate the fund's assets in connection with a termination of Total Strategy Fund. The Company was a logical purchaser for these investments, given that it already held interests in each of these private entities.

Effective September 15, 2009, the Company internalized its management and administrative functions previously provided by Sentry Select through the termination of the Agreements. In connection with the Internalization, the Company paid to Sentry Select a one-time cash fee of \$1.435 million inclusive of GST in consideration for the termination of the Agreements as well as the termination of an administration agreement between the Company's wholly-owned subsidiary CAB Ltd. (in its capacity as manager of CRFC) and Sentry Select.

### **CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

The Company's audited consolidated financial statements have been prepared in accordance with Canadian GAAP.

#### **Changes in Accounting Policies**

In February 2008, the Canadian Institute of Chartered Accountants (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.

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; loan and receivables for which we may not recover substantially all of our initial investment, other than because of credit deterioration, must be classified as available-for-sale; and loans and receivables that we intend 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### **Critical Accounting Estimates**

The Company's critical accounting estimates are primarily limited to valuing its Portfolio investments. The valuation methods and the techniques it employs in valuing its Portfolio investments and the assumptions used are detailed below.

#### *High Fidelity*

As the High Fidelity debenture is classified as held-to-maturity it 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 in 2010 (the maturity date for the debenture) assuming a discount rate of 45%. The 2010 enterprise and equity value was estimated based on existing earnings and subscribers of High Fidelity at the time of the Company's investment, an estimate of growth in subscribers and earnings and assumptions around exit multiples based on comparables (with adjustments where the Company believed adjustments were needed based on differences in High Fidelity's business model vs. those of the comparables).

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

### *Birmingham*

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.

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 common shares and preferred shares of approximately +/- \$2.25 million.

### *Windward*

There has been no material change to the estimated fair value or carrying value of the aggregate investments since inception. The change in carrying value from period end to period end has been attributable to changes in the foreign exchange rate for Canadian and U.S. dollars as the investment is denominated in U.S. dollars. The valuation is based on projected future earnings and assumptions at the time of original investment in early 2008.

The Company anticipates that as business normalizes it will use an earnings approach in valuing Windward from period to period.

### *Kingswood*

The Company values Kingswood 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 assets.

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 true 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 limited partnership investors providing further capital to the investment.

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Salbro*

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.

### *Everus*

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. The Company's valuation of its investment in Everus as at the date hereof is based on the expected face value of the note in BXI to be received in 2010.

### *Digital*

The \$6 million 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 DPT the Company has moved, as its primary valuation method to an "earnings approach" to value its interests in DPT 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(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 DPT 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 a conservative forecast of the next fiscal year. The average of actual past performance and a conservative forecast is used to adjust for the fact that DPT's business is somewhat seasonal/cyclical and experiences a certain amount of "lumpiness" in its sales volumes.

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 equity (warrants) of +/- \$0.8 million.

### FACTORS THAT MAY AFFECT FUTURE RESULTS

#### *Company Factors*

Future financial performance could be influenced by the Company's ability to (i) manage and maintain the value of its existing portfolio of investments in private entities and its investments in managed entities; (ii) successfully evaluate, structure and complete new investments in private entities; and (iii) manage and grow its existing assets under management.

#### *Non-Company Factors*

The Canadian small- and mid-market private equity space has been relatively undercapitalized in recent years and this is due to the significant change in the market participants. During the previous five years, the main bank sponsored private equity groups that have been active in this space have either exited the business or significantly scaled back their investment activities. In addition, Canada has its own unique regulatory, tax and capital market environment. These unique characteristics tend to favour local firms.

Given the current economic environment and the limited amount of capital being raised today, the Company may have difficulty in raising new funds as described under "Liquidity" above. To date, the Company has not yet put a credit facility in place as described above under "Liquidity". Given current economic conditions, the Company may encounter difficulties securing a short to medium-term operating facility.

For general factors affecting the Company see the section entitled "Risk Factors" included on pages 19 to 23 of the Company's AIF dated as at March 31, 2009 and filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### ADDITIONAL INFORMATION REGARDING SIGNIFICANT INVESTEEES

The Company has two significant equity investees, Charter REIT and CRFC, each of which is a reporting issuer which files financial statements on SEDAR at [www.sedar.com](http://www.sedar.com). For additional information regarding these significant equity investees, please see the annual financial statements for the year ended December 31, 2009 for each filed under their respective SEDAR profiles.

### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to the President and the Chief Financial Officer (the Certifying Officers) by others, and is recorded, processed, summarized and reported within the required time periods specified under securities legislation. Internal controls over financial reporting are designed to provide reasonable assurance

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its consolidated financial statements. The Certifying Officers are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting.

The Certifying Officers evaluated the design and operating effectiveness of the Company's disclosure controls and procedures as at the financial year ended December 31, 2009. Based on that evaluation, the Certifying Officers concluded that the design and operation of these disclosure controls and procedures were effective as at December 31, 2009 to provide reasonable assurance that material information relating to the Company would be made known to them by others, particularly during the period in which the annual filings are being prepared and that information required to be disclosed by the Company in its annual and interim filings and other reports submitted under securities legislation was recorded, processed, summarized and reported within the periods specified in securities legislation.

The Certifying Officers evaluated the design and operating effectiveness of the Company's internal controls over financial reporting as at the financial year ended December 31, 2009. Based on that evaluation, the Certifying Officers concluded that the design and operation of internal controls over financial reporting were effective as at December 31, 2009, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Certifying Officers have evaluated whether there were material weaknesses relating to the design of the Company's internal controls over financial reporting as at December 31, 2009. No such material weaknesses were identified through their evaluation.

The Certifying Officers have evaluated whether there were any changes in the Company's internal controls over financial reporting that occurred during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect its internal controls over financial reporting. No such changes were identified in their evaluation.

### **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is working to adopt IFRS as the basis for preparing its consolidated financial statements effective January 1, 2011. For the first quarter ended March 31, 2011, the Company will issue its financial results prepared on an IFRS basis with comparative data on an IFRS basis.

In order to meet the new IFRS reporting, the Company developed a transition plan during 2009 which included project structure and governance, resources and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS and potential IFRS exemptions. In early 2009, the Company completed its project scoping, creating a IFRS transition timetable for assessing impact on data systems, internal controls over financial reporting and business activities including financing and compensation arrangements. The IFRS plan milestones included certain training of the Company's key finance staff which was completed by the end of the second quarter of 2009. The milestones also included beginning an assessment of key IFRS-GAAP differences which was completed in the fourth quarter of 2009. The Company's IFRS plan includes the following milestones for completion by June 30, 2010: (1) completing the assessment of key IFRS-GAAP differences; (2) assessing IFRS 1 elections and exemptions; (3) analyzing quantitative impact of IFRS on the Company's accounting policies and financial statements; and (4) delivery of information sessions for the Company's audit committee.

The Company will continue to analyze Canadian GAAP and IFRS accounting policy differences throughout 2010 and to revise and update its transition plan accordingly. In addition, the Company will continue to progress

## MANAGEMENT'S DISCUSSION AND ANALYSIS

towards the quantification of identified differences and choices throughout 2010. The Company will provide more detailed information about the expected effects of IFRS as the changeover date approaches.

### ***IFRS Transition***

The Company has begun analyzing the optional exemptions available under IFRS 1 First-time Adoption of IFRS. The decisions about the optional exemptions under IFRS 1 are preliminary at this time. The decisions about accounting policy choices available under IFRS 1 and other individual IFRS standards will be disclosed throughout 2010 as they are reviewed and approved. The following are exceptions and exemptions under IFRS 1 that the Company anticipates adopting:

### ***Business combinations***

IFRS 1 allows for the guidance under IFRS 3 (revised), Business Combinations, to be applied either retrospectively or prospectively. The Company anticipates electing to adopt IFRS 3 (revised) prospectively. Accordingly, all business combinations on or after January 1, 2010 will be accounted for in accordance with IFRS 3 (revised).

### ***Estimates***

Hindsight is not to be used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP will not be revised for application of IFRS except where necessary to reflect any difference in accounting policies between IFRS and Canadian GAAP.

### ***IFRS to Canadian GAAP differences***

In addition to the exemptions and exceptions discussed above, the following discussion explains the significant accounting policy differences between Canadian GAAP and IFRS as they apply to the Company's consolidated financial statements.

### ***Business Combinations are non-controlling interests***

Canadian GAAP – Under C.A. Bancorp's application of Canadian GAAP, transaction costs are capitalized as a part of the cost of acquisition, when applicable. In addition, the non-controlling interests' share of net assets is recognized as a separate line item on the balance sheet, outside of equity and the non-controlling interests' share of earnings is recorded on the statement of net earnings, above net earnings. Additionally, when C.A. Bancorp divests a portion of an operating company, but retains control, a gain or loss is recorded in the statement of income for the difference between the carrying value for the portion sold and the proceeds.

IFRS – Under IFRS, all transaction costs relating to acquisitions are expensed as incurred. In addition, the non-controlling interests' share of the net assets is considered a component of equity. As a result, the non-controlling interests' share of earnings is recorded as an allocation after arriving at net earnings. Also, when a divestiture is made of a portion of a subsidiary and control is retained, the resulting change is recorded in the statement of equity, outside of the statement of net earnings.

### ***Reversal of impairments of intangible and long-lived assets, excluding goodwill***

Canadian GAAP – Reversal of impairment losses is not permitted.

IFRS – Reversal of impairment losses is required if the circumstances that led to the impairment no longer exist.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Based on work performed to date, the Company does not currently believe that IFRS will have a significant impact on its financial statements or its data systems. Given the size of the Company and the nature of its operations, the Company does not currently expect that there will be significant changes to its internal controls over financial reporting. The Company will be reviewing its internal controls in 2010 to ensure that they can support initial reporting under IFRS. As the Company's review of accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements.

### RISK MANAGEMENT

The Company is looking for opportunities as outlined in "Company Outlook" above. The merchant banking business is affected by a number of economic factors, including changing economic environments, capital markets and interest rates. As a result, the Company faces various risk factors, inherent in its normal business activities. These risk factors and the management thereof are described below.

The Company attempts to manage the risks associated with its merchant banking business and investment portfolio through planning, significant due diligence of investment opportunities and active involvement in and monitoring of its investments.

Investments in private entities are less liquid than public securities as there is no readily available market to sell an investment. There is a possibility that when an investment is to be sold, the price received may not be equal to its intrinsic value or its fair value for financial reporting purposes.

Currently, the Company has assets invested in cash and cash equivalents as well as in marketable securities. Therefore interest rates will affect income derived from the cash and cash equivalent investments and general risk such as commodity prices, the business environment and company specific risks will affect the value of the marketable securities.

#### *Concentration Risk*

The Company has made considerable investments in the form of sponsor capital in both Charter REIT and CRFC. The investments were intended, when made, to be strategic in nature and expected to be long-term in nature as the Company intended to continue to raise new capital that will increase assets under management and drive increased asset management fees for the Company.

If the Company made a decision to liquidate these assets in the context of the Strategic Review Process or otherwise, given the size and percentage ownership the Company holds in Charter REIT (33%) and CRFC (29%) as well as the relatively low daily trading volumes, the Company would likely need to find a strategic buyer for each position in order to generate a fair return for the Company, as opposed to selling its equity interests in the public market where the Company could realize a significant discount to fair value. In addition, the Company might have to sell its interests in the management agreements it holds for Charter REIT and CRFC to facilitate a sale of its equity positions in the respective entity.

#### *Liquidity Risk*

The Company has made investments in private entities which do not typically have an active market in which they can be sold. 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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Company has invested in public securities in an active market which can typically be readily disposed of. However, 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 as described above. Since the Company has largely liquidated its public portfolio, those securities which remain are those which are less liquid or in which the Company holds a larger position.

### *Interest Rate Sensitivity and Risk Management*

The Company does not currently have any material direct interest rate sensitivity or exposure.

Exposure to interest rate risk exists as a result of the mismatch, or gap, between assets, liabilities and off-balance sheet instruments, if any, scheduled to mature or reset on particular dates.

The Company manages interest rate risk, where possible, by maintaining an appropriate mix of fixed and floating rate assets and liabilities. The Company may, from time to time, consider the use of interest rate swap contracts and forward interest rate contracts to hedge interest rate risk. Decisions to use these products will be based on the relative merits of hedging as compared to the costs of such hedging arrangements.

### *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 manages credit risk on corporate investments through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and oversight responsibilities with existing investee companies and by conducting activities in accordance with investment policies that are approved by the Board of Directors. Management reviews the financial condition of investee companies regularly.

The Company has adopted a policy of only dealing with counterparties it determines to be creditworthy 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 \$10 million as at December 31, 2009.

### *Market Risk - Direct*

Market risk includes exposure to fluctuations in the market value of the Company's investments, currency rates and interest rates.

The Company has minimal direct exposure to market risk. As at December 31, 2009, the Company had approximately \$1.7 million worth of publicly traded investments which represented 2.4% of the Company's assets. The publicly traded investments are concentrated in four positions over three industries. A 10% change in the value of the value of those assets would therefore result in an increase or decrease in value of \$0.2 million of the fair value.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Market Risk – Indirect*

Investments in private entities represent \$37.6 million or 52.7% of the Company's assets. These investments do not trade in an active marketplace and therefore values are not directly observable by market prices. Certain investments classified as "held-to-maturity" are carried at amortized cost (typically debt instruments with fixed maturities) and others classified as "held-for-trading" are carried at fair values. Fair values are estimated based on financial figures (actual or forecast) obtained directly from the investee companies and market multiples (e.g. EBITDA<sup>1</sup> multiple) which are not directly observable but which can be estimated by considering public company multiples for companies in the same or similar businesses and, where information is known and believed to be reliable, multiples at which recent transactions in the industry occurred; and multiples at which the Company invested in the company, or for follow-on investments or financings. The resulting multiple is adjusted, if necessary, to take into account differences between the investee company and those the Company selected for comparisons and factors include public versus private company, company size, same versus similar business, as well as with respect to the sustainability of the investee company's financial performance and current economic environment. A sensitivity analysis to market multiples, where applicable, can be found in section "Critical Accounting Estimates" above.

Therefore, to the extent that fluctuations occur in stock markets (market risk), those fluctuations could influence multiples used by the Company in valuing its investments in private entities.

The Company's portfolio of investments in private entities is diversified across seven companies in seven industries as of December 31, 2009. The largest investment in a private entity is carried at an aggregate fair value of \$11 million which represents 15% of the Company's assets. The Company believes the debt profile of the investee companies to be, on the whole, at a sufficiently conservative level and encourages and influences those companies to remain prudent with debt levels. Keeping prudent levels of debt is a method of managing the risk on the overall portfolio.

For general factors affecting the Company see the section entitled "Risk Factors" included in the Company's AIF filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

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<sup>1</sup> Earnings before interest, tax, depreciation and amortization.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CORPORATE INFORMATION

#### C.A. BANCORP INC.

**Directors:**

John F. Driscoll<sup>1</sup>

Paul Haggis<sup>2,3</sup>

Frank Potter

Timothy Unwin<sup>2,3</sup>

Richard Zarzeczny<sup>2,3</sup>

**Officers:**

Mark Gardhouse, President

Paolo De Luca, Chief Financial Officer

Michael Lovett, Managing Director

Kurt Brands, Principal

Helen Martin, General Counsel & Corporate Secretary

**Auditors:** Deloitte & Touche LLP, Toronto, Ontario

**Transfer Agent:** Computershare Investor Services Inc., Calgary, Alberta

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info@cabancorp.com, [www.cabancorp.com](http://www.cabancorp.com)

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<sup>1</sup> Chairman of the Board.

<sup>2</sup> Member of the Audit Committee.

<sup>3</sup> Member of the Corporate Governance, Compensation and Nominating Committee.