

*Consolidated Financial Statements of*

**C.A. BANCORP INC.**

*June 30, 2007 (Unaudited)*

# C.A. BANCORP INC.

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June 30, 2007

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**C.A. BANCORP INC.**  
**Consolidated Balance Sheets**

As at June 30, 2007 (Unaudited) and December 31, 2006

|   | <u>June 30, 2007</u>  | <u>December 31, 2006</u> |
|---|-----------------------|--------------------------|
| <b>ASSETS</b>   |                       |                          |
| <b>CURRENT</b>  |                       |                          |
| Cash and cash equivalents (Note 3)                          | \$ 46,647,018         | \$ 32,904,560            |
| Restricted cash (Note 13)                                   | 525,000               | -                        |
| Receivables   | 559,466               | 215,518                  |
| Real estate loans (Note 4)                                  | 912,500               | -                        |
| Future income tax (Note 20)                                 | 598,001               | -                        |
| Prepaid expenses and other (Note 11)                        | 1,391,069             | 20,604                   |
| Direct investments (Note 5)                                 | 30,932,050            | 4,137,377                |
| Corporate investments in capital pool companies<br>(Note 6) | 158,253               | 653,026                  |
|   | <u>81,723,357</u>     | <u>37,931,085</u>        |
| <b>NON-CURRENT</b>  |                       |                          |
| Income producing properties (Note 9)                        | 28,592,491            | -                        |
| Intangible assets (Note 10)                                 | 9,118,101             | -                        |
| Deferred costs and other (Note 12)                          | 1,785,296             | 84,325                   |
| Goodwill (Note 7)   | 269,460               | -                        |
|   | <u>39,765,348</u>     | <u>84,325</u>            |
|   | <u>\$ 121,488,705</u> | <u>\$ 38,015,410</u>     |
| <b>LIABILITIES</b>  |                       |                          |
| <b>CURRENT</b>  |                       |                          |
| Bridge financing (Note 14)                                  | \$ 5,742,167          | \$ -                     |
| Accounts payable and accrued liabilities                    | 3,012,117             | 665,118                  |
| Due to related party (Note 21)                              | 136,456               | 176,381                  |
| Due to broker   | -                     | 140,359                  |
|   | <u>8,890,740</u>      | <u>981,858</u>           |
| <b>NON-CURRENT</b>  |                       |                          |
| Secured debt (Note 13)                                      | 27,353,573            | -                        |
| Intangible liabilities (Note 10)                            | 116,757               | -                        |
|   | <u>27,470,330</u>     | <u>-</u>                 |
| NON-CONTROLLING INTEREST (Note 7)                           | <u>2,167,557</u>      | <u>-</u>                 |
| <b>SHAREHOLDERS' EQUITY</b>                                 |                       |                          |
| Share capital (Note 17 (a))                                 | 82,674,868            | 38,592,016               |
| Warrants (Note 17 (b))                                      | -                     | 253,716                  |
| Contributed surplus   | 913,056               | 375,319                  |
| Deficit   | (627,846)             | (2,187,499)              |
|   | <u>82,960,078</u>     | <u>37,033,552</u>        |
|   | <u>\$ 121,488,705</u> | <u>\$ 38,015,410</u>     |

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"John F. Driscoll"

..... Director

"Richard J. Zarzeczny"

..... Director

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

# C.A. BANCORP INC.

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

For the three and six months ended June 30 (Unaudited)

|  | Three months ended June 30 |                    | Six months ended June 30 |                    |
|--|----------------------------|--------------------|--------------------------|--------------------|
|  | 2007                       | 2006               | 2007                     | 2006               |
| <b>REVENUE</b>   |                            |                    |                          |                    |
| Interest and investment income   | \$ 738,135                 | \$ 24,536          | \$ 1,394,459             | 49,330             |
| Revenues from rental properties  | 1,142,657                  | -                  | 1,194,111                | -                  |
| Asset management fees (Note 15)  | 207,625                    | -                  | 354,591                  | -                  |
| Deal fees  | -                          | -                  | 65,991                   | -                  |
|  | <b>2,088,417</b>           | 24,536             | <b>3,009,152</b>         | 49,330             |
| <b>NET GAIN ON INVESTMENTS</b>   |                            |                    |                          |                    |
| Realized gain on sale of direct investments  | 1,083,269                  | 936                | 1,123,244                | 936                |
| Gain on dilution of Charter investment (Note 7)  | 452,071                    | -                  | 452,071                  | -                  |
| Unrealized (loss) gain on direct investments (Note 5)  | (360,620)                  | (34,924)           | 40,556                   | (34,924)           |
|  | <b>1,174,720</b>           | (33,988)           | <b>1,615,871</b>         | (33,988)           |
| <b>EXPENSES</b>  |                            |                    |                          |                    |
| General and administration (Note 16)   | 579,502                    | 189,403            | 1,074,794                | 295,773            |
| Management fees (Note 16)  | 146,666                    | -                  | 278,061                  | -                  |
| Corporate transaction costs  | 565,841                    | 54,883             | 979,015                  | 65,796             |
| Interest expense   | 606,249                    | 1,458              | 614,870                  | 7,052              |
| Depreciation and amortization  | 522,650                    | -                  | 532,464                  | -                  |
| Rental property operating costs  | 320,655                    | -                  | 347,209                  | -                  |
| Stock based compensation (Note 18)   | 129,384                    | 35,927             | 302,815                  | 35,927             |
| Investment management fee (Note 15)  | 86,650                     | -                  | 166,814                  | -                  |
| Equity participation in CPCs (Note 6)  | 2,048                      | -                  | 6,093                    | -                  |
|  | <b>2,959,645</b>           | 281,671            | <b>4,302,135</b>         | 404,548            |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES<br/>AND NON-CONTROLLING INTEREST</b>                    |                            |                    |                          |                    |
|  | <b>303,492</b>             | (291,123)          | <b>322,888</b>           | (389,206)          |
| <b>PROVISION (RECOVERY) OF INCOME TAXES (Note 20)</b>  |                            |                    |                          |                    |
| Current tax provision  | 197,057                    | -                  | 197,057                  | -                  |
| Future tax recovery  | (58,272)                   | -                  | (598,001)                | -                  |
|  | <b>138,785</b>             | -                  | <b>(400,944)</b>         | -                  |
| <b>NET INCOME (LOSS) BEFORE<br/>NON-CONTROLLING INTEREST</b>                                     |                            |                    |                          |                    |
|  | <b>164,707</b>             | (291,123)          | <b>723,832</b>           | (389,206)          |
| <b>NON-CONTROLLING INTEREST (Note 7)</b>   | <b>(498,848)</b>           | -                  | <b>(742,273)</b>         | -                  |
| <b>NET INCOME (LOSS) AND<br/>COMPREHENSIVE INCOME</b>  |                            |                    |                          |                    |
|  | <b>\$ 663,555</b>          | <b>\$(291,123)</b> | <b>\$ 1,466,105</b>      | <b>\$(389,206)</b> |
| <b>NET INCOME (LOSS) PER SHARE (Post share consolidation - see Note 1)</b>                       |                            |                    |                          |                    |
| Basic  | \$ 0.05                    | \$ (0.26)          | \$ 0.10                  | \$ (0.38)          |
| Diluted  | \$ 0.05                    | \$ (0.26)          | \$ 0.10                  | \$ (0.38)          |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES<br/>OUTSTANDING (Post share consolidation - see Note 1)</b> |                            |                    |                          |                    |
| Basic  | 14,492,852                 | 1,141,629          | 14,329,004               | 1,030,905          |
| Diluted  | 14,692,027                 | 1,141,629          | 14,620,170               | 1,030,905          |

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

**C.A. BANCORP INC.**  
**Consolidated Statements of Deficit**  
For the three and six months ended June 30 (Unaudited)

|   | <b>Three months ended June 30</b> |                     | <b>Six months ended June 30</b> |                     |
|---|-----------------------------------|---------------------|---------------------------------|---------------------|
|   | <b>2007</b>                       | <b>2006</b>         | <b>2007</b>                     | <b>2006</b>         |
| DEFICIT, BEGINNING OF PERIOD  | \$ (1,291,401)                    | \$ (549,378)        | \$ (2,187,499)                  | \$ (89,086)         |
| Adjustment as a result of change in accounting<br>policy on direct investments held for trading |                                   | -                   | 93,548                          | -                   |
| Net income (loss)   | 663,555                           | (291,123)           | 1,466,105                       | (389,206)           |
| Issue costs of Qualifying Transaction (Note 1)  | -                                 | -                   | -                               | (362,209)           |
| <b>DEFICIT, END OF PERIOD</b>   | <b>\$ (627,846)</b>               | <b>\$ (840,501)</b> | <b>\$ (627,846)</b>             | <b>\$ (840,501)</b> |

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

**C.A. BANCORP INC.**  
**Consolidated Statements of Cash Flows**  
**For the three and six months ended June 30 (Unaudited)**

|  | Three months ended June 30 |                   | Six months ended June 30 |                   |
|--|----------------------------|-------------------|--------------------------|-------------------|
|  | 2007                       | 2006              | 2007                     | 2006              |
| <b>OPERATING ACTIVITIES</b>  |                            |                   |                          |                   |
| Net income (loss)  | \$ 663,554                 | \$ (291,123)      | \$ 1,466,104             | \$ (389,206)      |
| Adjusted for non-cash items:   |                            |                   |                          |                   |
| Future tax recovery  | (58,272)                   | -                 | (598,001)                | -                 |
| Unrealized loss (gain) on direct investments                                       | 360,620                    | 34,924            | (40,556)                 | 34,924            |
| Non-controlling interest   | (498,848)                  | -                 | (742,273)                | -                 |
| Stock based option compensation  | 129,384                    | 35,927            | 302,815                  | 35,927            |
| Write-down of goodwill   | 22,920                     | -                 | 22,920                   | -                 |
| Non-cash dilution gain in Charter  | (452,071)                  | -                 | (452,071)                | -                 |
| Realized gain on direct investments  | (1,083,269)                | (936)             | (1,123,244)              | (936)             |
| Equity participation in capital pool companies                                     | 2,049                      | -                 | 6,094                    | -                 |
| Depreciation and amortization  | 522,650                    | -                 | 532,464                  | -                 |
| Amortization of lease intangibles - below-market rate leases                       | (2,889)                    | -                 | (5,387)                  | -                 |
| Changes in non-cash working capital (net of Charter acq.):                         |                            |                   |                          |                   |
| Inc. (dec.) in current liabilities excluding bridge financing principal            | 787,293                    | (300,172)         | 2,004,776                | (572,841)         |
| (Decrease) increase in receivables and prepaid expense                             | (1,196,610)                | (19,465)          | (1,700,868)              | (44,045)          |
| (Increase) decrease in deferred costs  | (1,644,386)                | (8,642)           | (1,711,116)              | 95,091            |
| Net cash provided by (used in) operating activities                                | (2,447,875)                | (549,487)         | (2,038,343)              | (841,086)         |
| <b>INVESTING ACTIVITIES</b>  |                            |                   |                          |                   |
| Rental properties acquired, net of non-cash consideration                          | 1,549,828                  | -                 | (38,198,422)             | -                 |
| Non-controlling interest   | -                          | -                 | -                        | -                 |
| Real estate loans  | (912,500)                  | -                 | (912,500)                | -                 |
| Purchase of direct investments   | (12,473,863)               | -                 | (32,162,033)             | (300,876)         |
| Proceeds on sale of direct investments   | 6,062,990                  | 41,496            | 6,624,710                | 41,496            |
| Net change in restricted cash  | -                          | -                 | (525,000)                | -                 |
| Controlling acquisition of Charter:  |                            |                   |                          |                   |
| Cash contributed by non-controlling unitholders in Charter                         | -                          | -                 | 1,100,000                | -                 |
| Net cash acquired on acquisition   | -                          | -                 | 318,447                  | -                 |
| Net change in non-cash working capital acquired                                    | -                          | -                 | 136,856                  | -                 |
| Other  | (19,927)                   | -                 | (11,359)                 | 26,750            |
| Net cash used in investing activities  | (5,793,472)                | 41,496            | (63,629,301)             | (232,630)         |
| <b>FINANCING ACTIVITIES</b>  |                            |                   |                          |                   |
| Proceeds from Charter's non-controlling unitholders on June 2007 private placement | 1,802,250                  | -                 | 1,802,250                | -                 |
| Proceeds from new mortgage financing   | -                          | -                 | 27,525,000               | -                 |
| Proceeds from bridge financing   | -                          | -                 | 6,000,000                | -                 |
| Common shares issued (Note 17)   | 47,850,000                 | -                 | 47,996,276               | -                 |
| Issue costs paid   | (3,824,639)                | -                 | (3,913,424)              | (58,836)          |
| Cash acquired on Qualifying Transaction (Note 1)                                   | -                          | -                 | -                        | 2,042,196         |
| Other  | -                          | -                 | -                        | -                 |
| Net cash provided by financing activities  | 45,827,611                 | -                 | 79,410,102               | 1,983,360         |
| <b>NET (DECR.) INC. IN CASH AND CASH EQUIVALENTS</b>                               | <b>37,586,264</b>          | <b>(507,991)</b>  | <b>13,742,458</b>        | <b>909,644</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                              | <b>9,060,754</b>           | <b>1,494,328</b>  | <b>32,904,560</b>        | <b>76,693</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                    | <b>\$ 46,647,018</b>       | <b>\$ 986,337</b> | <b>\$ 46,647,018</b>     | <b>\$ 986,337</b> |
| <b>REPRESENTED BY:</b>   |                            |                   |                          |                   |
| Cash   | \$ 1,187,018               | \$ 926,567        | \$ 1,187,018             | \$ 926,567        |
| Cash equivalents (Note 3)  | 45,460,000                 | 59,770            | 45,460,000               | 59,770            |
|  | \$ 46,647,018              | \$ 986,337        | \$ 46,647,018            | \$ 986,337        |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                           |                            |                   |                          |                   |
| Income taxes paid  | \$ -                       | \$ -              | \$ -                     | \$ -              |
| Interest paid  | \$ 382,593                 | \$ 1,373          | \$ 391,216               | \$ 3,296          |

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

June 30, 2007 (Unaudited)

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### 1. ORGANIZATION

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

C.A. Bancorp completed its initial public offering on August 22, 2005 issuing common shares (150,000 post-consolidation, see below) at \$0.20 per share (\$2.00 per share post-consolidation). On September 2, 2005 C.A. Bancorp began trading on the TSXV under the symbol “MTH.P”. On January 26, 2006, C.A. Bancorp completed its Qualifying Transaction (as defined in Policy 2.4 of the TSXV) and changed its name from Masthead Resources Ltd. to C.A. Bancorp Inc. and its trading symbol to “BKP”.

On November 27, 2006 the Company closed a secondary public offering from treasury raising gross proceeds of \$38,751,177 at \$0.30 per share (\$3.00 per share post-consolidation).

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

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

On June 29, 2007 the Company closed a public offering from treasury raising gross proceeds of \$47,850,000 at \$3.30 per share.

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

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

#### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: C.A. Bancorp Ltd. (“Ltd.”), C.A. Realty Management Inc. (“Realty Mgmt Inc.”), and C.A. Bancorp Realty Finance Inc. (“Realty Finance Inc.”), collectively hereafter referred to as “the Company”. Realty Finance Inc., which was incorporated on March 15, 2006, has been inactive since incorporation and has no assets, liabilities, revenues or expenses. Ltd. was acquired on January 26, 2006 as part of the Qualifying Transaction. The Qualifying Transaction has been recorded as a reverse takeover transaction, which does not constitute a business combination, in accordance with Abstract No. 10 of the Emerging Issues Committee (“EIC-10”) of the Canadian Institute of Chartered Accountants. Therefore, the consolidated financial statements are issued under the name of C.A. Bancorp Inc., the legal parent company, but are considered to be a continuation of the financial statements of Ltd., the legal subsidiary. The consolidated statements of operations, cash flows for the six months ended June 30, 2006 include the results of operations and cash flows and deficit of Ltd. from January 1, 2006 and of the Company since January 26, 2006.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 (Unaudited)**

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

*(a) Principles of consolidation (continued)*

The Company's consolidated financial statements as at June 30, 2007 also include the accounts of its majority owned subsidiary Charter Real Estate Investment Trust ("Charter REIT") (Note 7). The Company did not consolidate this subsidiary as at December 31, 2006 or at any time before that. As at December 31, 2006 the Company owned 41.7% of the issued and outstanding shares of Charter and accordingly the investment in Charter was accounted for under the equity method prior to and including December 31, 2006 and appeared as a one-line caption on the balance sheet.

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

*(b) Changes in Accounting Policy*

On January 1, 2007 the Company adopted the following new accounting standards of the Canadian Institute of Chartered Accountants (the "CICA"): Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instrument – Disclosure and Presentation" and Section 1530, "Comprehensive Income". These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide the requirements for the recognition and measurement of financial instruments as well as comprehensive income. These standards require that all financial assets be classified as available-for-sale, held-to-maturity, held-for-trading or as loans and receivables. All financial assets are required to be carried at fair value in the consolidated balance sheets, except for loans and receivable and held-to-maturity investments which are carried at amortized cost using the effective interest rate method. All financial liabilities must be classified as either held-for-trading or other financial liabilities. Financial liabilities that are held-for-trading are required to be carried at fair value, whereas all other financial liabilities are carried at amortized cost using the effective interest rate method. Subsequent measurement and changes in fair value of financial instruments will depend on their initial classification as follows: held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Comprehensive income consists of net income and other comprehensive income. Major components of other comprehensive income may include unrealized gains and losses on financial assets classified as available-for-sale and changes in fair value of the effective portion of cash flow hedging instruments. For the three months and six months ended June 30, 2007, comprehensive income is the same as net income.

As a result of the adoption of these new standards the Company has elected to classify its direct investments as held-for-trading and are carried at their fair value. Accounts receivables and related party receivables are classified as loans and receivables and are carried at amortized costs. Accounts payable and accrued liabilities, notes payable, and secured debt are classified as other liabilities, all of which are carried at amortized cost.

The adoption of these new standards has been applied retroactively with no restatement of prior years. The Company's opening deficit, as of January 1, 2007, has been adjusted for the impact of adopting these standards.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 (Unaudited)**

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

*(c) Revenue recognition*

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

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

Deal fees or work fees are recognized when the deal fees engagement services have been fully completed and management is assured of their realization.

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

The Company uses the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the terms of the respective leases. Accordingly, an accrued rent receivable/payable is recorded from the tenants for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenants.

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

*(d) Operating leases acquired in either an asset acquisition or a business combination*

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

a. Land

Land is recorded at its estimated fair value.

b. Buildings

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

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 (Unaudited)**

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

*(d) Operating leases acquired in either an asset acquisition or a business combination  
(continued)*

c. Tenant improvements

Tenant improvements are recorded at depreciated replacement cost based on estimates of prevailing construction costs, taking into account the condition of tenants' premises.

d. Above and below market in-place leases

Values ascribed to above and below market in-place leases are determined based on the present value of the difference between the rents payable under the terms of the in-place leases and estimated market rents.

e. Lease origination costs

Lease origination costs are determined based on estimates of the costs that would be required for the existing leases to be put in place under the same terms and conditions. These costs include leasing commissions, foregone rent and operating cost recoveries during an estimated lease-up period.

f. Tenant relationship values

Tenant relationship values are determined based on the net costs avoided if the tenants were to renew their leases at the end of the existing term, adjusted for the estimated probability that the tenants will renew.

*(e) Income producing properties*

Income producing properties include land and buildings and improvements, which are carried at cost less accumulated depreciation.

*(f) Goodwill, intangible assets and liabilities*

Goodwill represents the excess of purchase price over the fair value of the net identifiable assets of Charter acquired. Goodwill is carried at initial cost less write down for impairment. During each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired fair value. Intangible assets and liabilities include lease origination costs, the value of above and below market in-place leases and the value of tenant relationships.

*(g) Deferred costs*

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

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 (Unaudited)**

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

*(h) Depreciation and amortization*

Depreciation on buildings is provided using the straight-line method over their estimated useful lives of up to 40 years.

Tenant improvements, tenant inducements and leasing fees included in deferred costs are amortized on a straight-line basis over the terms of the leases.

Above and below market in-place leases are amortized to revenues over the remaining terms of the associated leases.

Lease origination costs are amortized over the remaining terms of the associated leases.

Tenant relationship values are amortized over the expected term of the relationship.

*(i) Financing fees*

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

*(j) Cash and cash equivalents*

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

*(k) Direct investments*

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

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

*(l) Investments in capital pool companies*

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

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2007 (Unaudited)**

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

*(m) Incentive stock options*

The Company has an incentive stock option plan as described in Note 17. The Company follows the fair value method of accounting for the expense associated with the plan, whereby an estimate of the fair value of the stock options granted is measured and recorded as an expense over the vesting period or at the date of grant if options vest immediately, with the related offset recorded as shareholders' equity. The effect of actual forfeitures of previously granted options is recognized as they occur. Any consideration paid to the Company with respect to the exercise of stock options is credited to share capital. For the purpose of accounting for incentive stock options, directors, officers and direct employees of the Company are considered employees and other parties are considered non-employees.

*(n) Income taxes*

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

*(o) Income (loss) per share*

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

*(p) Use of estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used in the valuation of intangible assets and liabilities and the allocation of purchase price to income producing properties. Actual results could differ from these estimates.

**3. CASH EQUIVALENTS**

As at June 30, 2007 the Company held a Government of Canada Treasury Bill, yielding 3.59% and maturing on September 8, 2007 in the amount of \$60,000 and a term deposit in the amount of \$45,400,000 yielding 4.20% and maturing on July 3, 2007. As at December 31, 2006 the Company held a Government of Canada Treasury Bill, yielding 3.44% and maturing on January 11, 2007 in the amount of \$171,000 and a term deposit yielding 4.20% maturing on January 2, 2007.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
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**4. REAL ESTATE LOANS**

During the quarter ended June 30, 2007 the Company made two real estate loans yielding a 10% interest rate on each. One loan is a first mortgage with a principal balance outstanding of \$312,500 and the other is a second mortgage with a principal balance outstanding of \$600,000 as at June 30, 2007. Both mortgages are secured by property in Alberta.

**5. DIRECT INVESTMENTS**

In accordance with the Company's accounting policies a fair value (unrealized gain) adjustment of \$40,556 were recognized in income for the six months ended June 30, 2007 (2006 - Nil). The following is a list of direct publicly traded investments held at quarter end and at year-end.

The term "equity" is broadly defined to include, but is not limited to, securities such as income trust units and common shares. As at June 30, 2007 the Company had 59 (December 31, 2006 - 20) investments in publicly traded securities as part of its direct investments portfolio.

**Public Traded Direct Investments as at June 30, 2007**

| <i>Industry Grouping</i><br>Product | Cost                 | Fair<br>Value        | Unrealized<br>Gain (Loss) |
|-------------------------------------|----------------------|----------------------|---------------------------|
| <b>Industrials</b>                  |                      |                      |                           |
| Equities                            | \$ 12,571,455        | \$ 12,489,578        | \$ (81,877)               |
|                                     | <b>12,571,455</b>    | <b>12,489,578</b>    | <b>(81,877)</b>           |
| <b>Financial Services</b>           |                      |                      |                           |
| Equities                            | 5,460,969            | 5,024,776            | (436,193)                 |
|                                     | <b>5,460,969</b>     | <b>5,024,776</b>     | <b>(436,193)</b>          |
| <b>Energy &amp; Commodities</b>     |                      |                      |                           |
| Equities                            | 2,203,396            | 1,897,062            | (306,334)                 |
| Investments Trusts (a)              | 774,864              | 642,398              | (132,466)                 |
|                                     | <b>2,978,260</b>     | <b>2,539,460</b>     | <b>(438,800)</b>          |
| <b>Infrastructure</b>               |                      |                      |                           |
| Equities (b)                        | 3,412,269            | 3,416,298            | 4,029                     |
|                                     | <b>3,412,269</b>     | <b>3,416,298</b>     | <b>4,029</b>              |
| <b>Diversified &amp; Other</b>      |                      |                      |                           |
| Equities                            | 5,729,299            | 6,275,178            | 545,879                   |
| Investments Trusts                  | 1,084,998            | 1,186,760            | 101,762                   |
|                                     | <b>6,814,297</b>     | <b>7,461,938</b>     | <b>647,641</b>            |
| <b>Total</b>                        | <b>\$ 31,237,250</b> | <b>\$ 30,932,050</b> | <b>\$ (305,200)</b>       |

**C.A. BANCORP INC.**  
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**5. DIRECT INVESTMENTS (continued)**

**Publicly Traded Direct Investments as at December 31, 2006**

| <i>Industry Grouping</i><br>Product   | Cost                | Carrying<br>Value   | Unrealized<br>Gain / (Loss) |
|---|---------------------|---------------------|-----------------------------|
| <b>Industrials</b>  |                     |                     |                             |
| Equities  | \$ 1,457,353        | \$ 1,457,353        | \$ -                        |
|   | <b>1,457,353</b>    | <b>1,457,353</b>    | <b>-</b>                    |
| <b>Financial Services</b>   |                     |                     |                             |
| Equities  | 872,997             | 807,505             | (65,492)                    |
|   | <b>872,997</b>      | <b>807,505</b>      | <b>(65,492)</b>             |
| <b>Energy &amp; Commodities</b>   |                     |                     |                             |
| Equities  | 595,995             | 356,887             | (239,108)                   |
| Investments Trusts (a)  | 707,321             | 580,196             | (127,125)                   |
|   | <b>1,303,316</b>    | <b>937,083</b>      | <b>(366,233)</b>            |
| <b>Infrastructure</b>   |                     |                     |                             |
| Equities (b)  | 133,514             | 133,514             | -                           |
|   | <b>133,514</b>      | <b>133,514</b>      | <b>-</b>                    |
| <b>Diversified &amp; Other</b>  |                     |                     |                             |
| Equities  | 380,992             | 379,913             | (1,079)                     |
| Investments Trusts  | 428,509             | 422,009             | (6,500)                     |
|   | <b>809,501</b>      | <b>801,922</b>      | <b>(7,579)</b>              |
| <b>Total, December 31, 2006</b>   | <b>\$ 4,576,681</b> | <b>\$ 4,137,377</b> | <b>\$ (439,304)</b>         |
| <b>Fair value adjustment charged to opening retained earnings</b>           | <b>-</b>            | <b>93,548</b>       | <b>93,548</b>               |
| <b>Total carrying value adjusted to fair value basis as of Jan. 1, 2007</b> | <b>\$ 4,576,681</b> | <b>\$ 4,230,925</b> | <b>\$ (345,756)</b>         |

- (a) The manager of an investment trust with a carrying value of \$178,000 (December 31, 2006 - \$197,600) is controlled by the CEO/Chairman of the Company and the investment advisor of an investment trust with a carrying value of \$224,286 (December 31, 2006 - \$226,000) is controlled by the CEO and Chairman of the Company.
- (b) The CEO/Chairman of the Company is the Chairman of the general partner that manages an equity investment with a carrying value of \$781,200 (December 31, 2006 - \$133,514).

**C.A. BANCORP INC.**  
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**6. CORPORATE INVESTMENTS IN CAPITAL POOL COMPANIES**

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

| <u>Capital Pool Company Investment</u> | <u>Percent Ownership</u> | <u>Cost</u>       | <u>Cumulative Adjustments</u> | <u>Carrying Value</u> |
|--|--------------------------|-------------------|-------------------------------|-----------------------|
| Universal Infrastructure Corp.         | 27.1%                    | \$ 95,000         | \$ (15,875)                   | \$ 79,125             |
| Global Alternative Investments Inc.    | 27.1%                    | 95,000            | (15,872)                      | 79,128                |
| <b>Total Cost and Carrying Value</b>   |                          | <b>\$ 190,000</b> | <b>\$ (31,747)</b>            | <b>\$ 158,253</b>     |

The Company had the following investments in capital pool companies (“CPCs”) as at December 31, 2006:

| <u>Capital Pool Company Investment</u> | <u>Percent Ownership</u> | <u>Cost</u>       | <u>Cumulative Adjustments</u> | <u>Carrying Value</u> |
|--|--------------------------|-------------------|-------------------------------|-----------------------|
| Charter Realty Holdings Ltd.           | 41.7%                    | \$ 500,000        | \$ (11,320)                   | \$ 488,680            |
| Universal Infrastructure Corp.         | 27.1%                    | 95,000            | (12,987)                      | 82,013                |
| Global Alternative Investments Inc.    | 27.1%                    | 95,000            | (12,667)                      | 82,333                |
| <b>Total Cost and Carrying Value</b>   |                          | <b>\$ 690,000</b> | <b>\$ (36,974)</b>            | <b>\$ 653,026</b>     |

The Company, along with its CEO/Chairman as well as two of its other board members founded two CPCs: Universal Infrastructure Corp. (“Universal”) and Global Alternative Investments Inc. (“Global”) on August 2, 2006. Each CPC was seeded with \$200,000 in gross proceeds (2,000,000 shares at \$0.10). Universal and Global separately completed an initial public offering on December 5, 2006 raising \$300,000 in gross proceeds by issuing 1,500,000 shares at \$0.20. On January 10, 2007 Universal and Global began trading on the TSX Venture under the symbols UIC.P and GLIP respectively.

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

In accordance with the equity method of accounting for investments carrying value adjustments of \$2,888 (Universal) and \$3,205 (Global) were taken against income during the six months ended June 30, 2007 (June 30, 2006 – nil) based on the Company’s percentage ownership and the amount of time during the year that the Company was deemed to have significant influence over these CPCs.

On a fair value basis Universal and Global had values of \$303,520 and \$260,838 as at June 30, 2007.

**C.A. BANCORP INC.**  
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**7. INVESTMENT IN CHARTER REIT**

On September 14, 2006 the Company purchased 2,500,000 common shares of Charter in a private placement transaction at \$0.20 for a total cost of \$500,000. Subsequent to this private placement the Company owned 41.7% of Charter.

On February 6, 2007 Charter completed a second private placement issuing 15,000,000 shares at \$0.20 each of which the Company subscribed for 9,500,000 shares for a total cost on the subscription of \$1.9 million. This transaction gave the Company a 57.1% ownership in Charter that had approximately the following summarized balance sheet subsequent to the private placement:

|  | (in thousands)  |
|--|-----------------|
| Cash and cash equivalents                              | \$ 3,807        |
| Other assets   | 48              |
| <b>Total assets</b>                                    | <b>3,855</b>    |
| Less: liabilities                                      | 185             |
| Charter net assets at fair value                       | 3,670           |
| Less: non-controlling interest                         | 1,574           |
| Company's portion of net assets acquired at fair value | 2,096           |
| Goodwill   | 292             |
| <b>Total purchase consideration</b>                    | <b>\$ 2,388</b> |

On May 10, 2007, Charter completed its conversion to a trust structure under a Plan of Arrangement (the "Arrangement"). The Arrangement resulted in shareholders of Charter transferring their shares to Charter Real Estate Investment Trust (the "REIT"), in consideration for units of the REIT. Each 10 issued shares of Charter were transferred to the REIT in exchange for 1 unit of the REIT. The REIT was formed pursuant to a Declaration of Trust dated March 27, 2007, specifically for the purposes of the Company converting into the REIT.

In addition, REIT unit options have been issued with similar terms to replace the stock options issued by Charter, except that each 10 stock options of Charter were exchanged for 1 unit option at 10 times the applicable exercise price. The Company's 12,000,000 shares at \$0.20 per share were converted to 1,200,000 units at a historical accounting cost of \$2.00 per unit.

The REIT has acquired Charter on a continuity of business basis, and therefore the REIT directly and indirectly owns all of the assets of Charter including the Rona properties and the Méga Centre.

Corporate transaction costs of \$754,067 were recorded in the statements of operations reflecting costs incurred during the six months ended June 30, 2007 for the conversion transaction.

On June 21, 2007 Charter completed another private placement issuing 741,000 units at \$4.05 each of which the Company subscribed for 296,000 shares for a total cost on the subscription of \$1,198,800. Subsequent to the private placement and as at June 30, 2007 the Company owned 52.4% of Charter.

The following is the calculation of the continuity in goodwill that appears on the balance sheet as at June 30, 2007:

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
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**7. INVESTMENT IN CHARTER REIT (continued)**

|   |                  | (in thousands) |
|---|------------------|----------------|
| Goodwill as at March 31, 2007   |                  | <u>\$ 292</u>  |
|   |                  | 292            |
| New units issued to non-controlling interests resulting in a dilution of C.A. Bancorp's ownership | <u>222,800</u>   |                |
| Units of Charter outstanding post June 21, 2007 private placement                                 | <u>2,856,000</u> |                |
| Reduction in goodwill   |                  | 7.80% (23)     |
| Goodwill as at June 30, 2007  |                  | <u>\$ 269</u>  |

The continuity of the non-controlling interest in Charter appearing on the balance sheet as at June 30, 2007 is as follows:

|  |  | (in thousands)  |
|--|--|-----------------|
| Non-controlling interest consolidated financial statements as at March 31, 2007          |  | \$ 1,331        |
| Non-controlling interest's portion of June 21, 2007 private placement capital raised     |  | 1,336           |
| Non-controlling interest's portion of Charter's net loss for quarter ended June 30, 2007 |  | (499)           |
| Non-controlling interest consolidated financial statements as at June 30, 2007           |  | <u>\$ 2,168</u> |

As a result of the dilution of the Company's interest in Charter from 57.1% to 52.4% the Company recorded a gain (non-cash) on dilution of Charter on its consolidated statement of operations calculated as follows:

|  |  | (in thousands) |
|--|--|----------------|
| Company's incremental portion of net assets received in Charter on dilutive-to-ownership percentage portion of June 21, 2007 private placement |  | \$ 475         |
| Reduction in goodwill  |  | (23)           |
| Gain on dilution of Charter investment   |  | <u>\$ 452</u>  |

**C.A. BANCORP INC.**  
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**8. SEGMENTED INFORMATION**

The following is a summarized balance sheet and statement of operations of the Company and Charter with certain elimination adjustments required for consolidation already reflected in each segment. The Company's main businesses consist of direct investing and asset management services (collectively "Investing"). Charter's business consists mainly of purchasing and managing retail based real estate properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. As at and for the period ending December 31, 2006 C.A. Bancorp's investment in Charter was reported within a one line caption on the balance sheet and had a carrying value of \$488,680.

| STATEMENT OF OPERATIONS<br>For the six months ended June 30 | 2007         |              |                     | 2006         |
|---|--------------|--------------|---------------------|--------------|
|   | Investing    | Real Estate  | Consolidated Entity | C.A. Bancorp |
| Revenues  | \$ 1,794,508 | \$ 1,214,644 | \$ 3,009,152        | \$ 49,330    |
| Net gain on direct investments                              | 1,163,800    | -            | 1,163,800           | (33,988)     |
| Dilution gain on investment in Charter                      | -            | 452,071      | 452,071             | -            |
| Expenses  | (1,576,277)  | (2,725,858)  | (4,302,135)         | (404,548)    |
| Income (loss) before recovery of future income taxes        | 1,382,031    | (1,059,143)  | 322,888             | (389,206)    |
| Provision for income taxes                                  | 197,057      | -            | 197,057             | -            |
| Recovery of future income taxes                             | (598,001)    | -            | (598,001)           | -            |
| Net (loss) income before non-controlling interest           | 1,782,975    | (1,059,143)  | 723,832             | (389,206)    |
| Non-controlling interest                                    | -            | (742,273)    | (742,273)           | -            |
| Net income (loss)   | \$ 1,782,975 | \$ (316,870) | \$ 1,466,105        | \$ (389,206) |

| BALANCE SHEETS  | June 30, 2007 |               |                     | Dec. 31, 2006 |
|---|---------------|---------------|---------------------|---------------|
|   | Investing     | Real Estate   | Consolidated Entity | C.A. Bancorp  |
| <b>Assets</b>   |               |               |                     |               |
| Cash and other current assets   | \$ 45,443,802 | \$ 5,189,252  | \$ 50,633,054       | \$ 33,140,682 |
| Investments   | 31,090,303    | -             | 31,090,303          | 4,137,377     |
| Income producing properties, intangible assets and other non-current assets | 526,012       | 39,239,336    | 39,765,348          | 737,351       |
|   | \$ 77,060,117 | \$ 44,428,588 | \$ 121,488,705      | \$ 38,015,410 |
| <b>Liabilities</b>  |               |               |                     |               |
| Bridge financing and other current liabilities                              | \$ 1,324,543  | \$ 7,566,197  | \$ 8,890,740        | \$ 981,858    |
| Secured debt and other non-current liabilities                              | -             | 27,470,330    | 27,470,330          | -             |
| Non-controlling interest  | -             | 2,167,557     | 2,167,557           | -             |
| Shareholders' Equity  |               |               | \$ 82,960,078       | \$ 37,033,552 |

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
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**9. INCOME PRODUCING PROPERTIES – CHARTER REIT**

|                            | <b>June 30,<br/>2007</b> | December 31,<br>2006 |
|----------------------------|--------------------------|----------------------|
| Land                       | \$ 8,110,171             | \$ -                 |
| Buildings and improvements | 20,627,027               | -                    |
|                            | <b>28,737,198</b>        | -                    |
| Accumulated depreciation   | (144,707)                | -                    |
|                            | <b>\$ 28,592,491</b>     | <b>\$ -</b>          |

(a) *2007 acquisitions*

- a. Rona properties - On February 23, 2007 Charter completed the acquisition of three free-standing, single-use retail facilities leased to Rona Ontario Inc. for an aggregate cash purchase price of \$2,065,000 (before closing costs). The properties are located in Exeter, Seaforth and Zurich, Ontario and comprise approximately 35,000 square feet of leasable retail space and an additional 52,000 square feet of enclosed warehouse space.
- b. Méga Centre - On March 30, 2007, Charter completed the acquisition of the Méga Centre, a shopping centre located in St. Laurent, Quebec for \$36,700,000 (before closing costs). The Méga Centre comprises 314,000 square feet of rentable retail space and warehouse space. Approximately 35,000 square feet of basement warehouse space remains vacant. The Méga Centre acquisition was financed with a standard first mortgage loan and advances under two credit facilities (see Notes 11 and 12). The vendor has guaranteed 4½ months of rent of a tenant that leases 6.5% of the retail area in the shopping centre.

|   | <b>Rona<br/>Properties</b> | <b>Mega<br/>Centre</b> | <b>Total</b>         |
|---|----------------------------|------------------------|----------------------|
| Land  | \$ 592,907                 | \$ 7,517,264           | \$ 8,110,171         |
| Building  | 1,174,406                  | 19,452,621             | 20,627,027           |
| Intangible assets                                   |                            | 1,573,211              | 1,573,211            |
| Lease origination costs                             | 297,923                    | 7,461,445              | 7,759,368            |
| Tenant relationships                                | 205,900                    | 1,496,123              | 1,702,023            |
| Intangible liabilities                              |                            |                        |                      |
| Below market in-place leases                        | (122,144)                  | -                      | (122,144)            |
|   | <b>2,148,992</b>           | <b>37,500,664</b>      | <b>39,649,656</b>    |
| Working capital acquired, net                       | (7,325)                    | (54,197)               | (61,522)             |
| <b>Total purchase price including closing costs</b> | <b>\$ 2,141,667</b>        | <b>\$ 37,446,467</b>   | <b>\$ 39,588,134</b> |

The acquisitions were funded as follows:

|   |                     |                      |                      |
|---|---------------------|----------------------|----------------------|
| Proceeds from first mortgage,<br>net of reserve fund in restricted cash | \$ -                | \$ 27,000,000        | \$ 27,000,000        |
| Credit facilities   | -                   | 10,500,000           | 10,500,000           |
| Cash  | 2,151,613           | 120,022              | 2,271,635            |
| <b>Net outlay for acquisitions</b>                                      | <b>\$ 2,151,613</b> | <b>\$ 37,620,022</b> | <b>\$ 39,771,635</b> |

**C.A. BANCORP INC.**  
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**10. INTANGIBLE ASSETS AND LIABILITIES – CHARTER REIT**

|                              | <b>June 30, 2007</b>        |                                     |                           |
|------------------------------|-----------------------------|-------------------------------------|---------------------------|
|                              | <b>Gross Book<br/>Value</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> |
| Intangible assets            |                             |                                     |                           |
| Lease origination costs      | \$ 7,759,368                | \$ 301,446                          | \$ 7,457,922              |
| Tenant relationships         | 1,702,023                   | 41,844                              | 1,660,179                 |
|                              | <b>\$ 9,461,391</b>         | <b>\$ 343,290</b>                   | <b>\$ 9,118,101</b>       |
| Intangible liabilities       |                             |                                     |                           |
| Below market in-place leases | \$ 122,144                  | \$ 5,387                            | \$ 116,757                |
|                              | <b>\$ 122,144</b>           | <b>\$ 5,387</b>                     | <b>\$ 116,757</b>         |

**11. PREPAID EXPENSES AND OTHER**

|   | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|--------------------------|------------------------------|
| Costs incurred on Charter's equity offerings            | \$ 577,892               | \$ -                         |
| Deposits and costs on properties under option (Charter) | 381,204                  | -                            |
| Other prepaid expenses                                  | 431,973                  | 20,604                       |
|   | <b>\$ 1,391,069</b>      | <b>\$ 20,604</b>             |

Of the other prepaid expenses \$405,397 relate to Charter and \$26,576 relate to the Company.

**12. DEFERRED COSTS AND OTHER**

As at June 30, 2007 the Company reported consolidated deferred and other costs of \$1,785,296 (December 31, 2006 - \$84,325). Deferred costs consist primarily of tenant improvements paid by Charter on the acquisition of property which represent \$1,536,025 of the total deferred costs. The remaining deferred costs consist primarily of legal fees incurred by the Company for the drafting of an offering memorandum related to a proposed private equity fund ("Private Equity Fund") that it expects to launch in fiscal 2007. Any deferred costs related to the Private Equity Fund that are not expected to be recoverable will be expensed when that determination is made.

**C.A. BANCORP INC.**  
**Notes to the Consolidated Financial Statements**  
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**13. SECURED DEBT**

Secured long term debt provided by a Canadian charter bank for Charter consists of the following:

|                     | <b>June 30, 2007</b>     |                             |                      |
|---------------------|--------------------------|-----------------------------|----------------------|
|                     | <b>Interest<br/>Rate</b> | <b>Term to<br/>Maturity</b> | <b>Total</b>         |
| Fixed rate mortgage | 5.32%                    | 10 years                    | \$ 27,525,000        |
|                     |                          |                             | <b>\$ 27,525,000</b> |

The principal repayments are as follows:

|            | <b>Principal<br/>Instalment<br/>Payments</b> | <b>Balance<br/>Maturing</b> | <b>Total</b>         | <b>Interest Rate<br/>on Debt<br/>Maturing</b> |
|------------|--|-----------------------------|----------------------|---|
| 2007       | \$ -   | \$ -                        | \$ -                 |   |
| 2008       | -  | -                           | -                    |   |
| 2009       | 276,007                                      | -                           | 276,007              |   |
| 2010       | 385,549                                      | -                           | 385,549              |   |
| 2011       | 406,596                                      | -                           | 406,596              |   |
| Thereafter | 2,528,228                                    | 23,928,620                  | 26,456,848           | 5.32%   |
|            | <b>\$ 3,596,380</b>                          | <b>\$ 23,928,620</b>        | <b>\$ 27,525,000</b> |   |

On the acquisition of the Méga Centre, Charter obtained a standard first mortgage loan from a Canadian chartered bank in the amount of \$27,525,000, secured by the property. The loan is for a 10-year term and is interest only for the first two years. Thereafter, the loan will be amortized over a 30-year term. The loan bears interest at 5.32%. The terms of the first mortgage financing required Charter to set up an initial \$525,000 reserve fund with the first mortgage lender to cover future capital expenditures on the property. Future amounts of \$9,167 per month will also be made into the reserve fund.

Netted against the secured debt are commitment fees and other fees associated with the first mortgage financing.

The fair value of the secured debt approximates \$26.6 million as at June 30, 2007.

**C.A. BANCORP INC.**  
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**14. BRIDGE FINANCING**

KingSett Capital and C.A. Bancorp Inc. have each provided Charter with acquisition facilities, for total facilities available of \$24,000,000. Of the \$24,000,000 available, a total of \$10,500,000 has been drawn in order to finance the Méga Centre acquisition, with \$6,000,000 being drawn under the KingSett facility and \$4,500,000 being drawn under the C.A. Bancorp Inc. facility. The C.A. Bancorp Inc. facility has been eliminated as an intercompany transaction upon consolidation so that neither the asset on C.A. Bancorp Inc.'s unconsolidated financial statements nor the liability from Charter's unconsolidated financial statements is recognized in the consolidated balance sheet as at June 30, 2007.

The KingSett facility bears interest at an annual rate of 12% and has a 12-month term. Any principal drawn is repayable without penalty, subject to a minimum 4-month interest payment. The facility is secured by a second mortgage on the Méga Centre, a first mortgage on the Rona properties and a general security agreement with Charter.

Netted against the bridge financing are commitment fees and other fees associated with these facilities.

The fair value of the bridge financing approximates book value as at June 30, 2007.

**15. ASSET AND INVESTMENT MANAGEMENT FEES**

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

The Company recognized \$354,591 in Asset Management Fees as revenue and \$166,814 of Investment Management Fees as expenses for the six months ended June 30, 2007 (June 30, 2006 – \$Nil). Included in AMF are \$305,825 of management fees and \$48,766 of performance fees.

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**16. ADMINISTRATION AND MANAGEMENT AGREEMENTS WITH SENTRY SELECT**

On May 18, 2006, the independent members of the Board of Directors of the Company approved an Amended and Restated Administration Agreement (the "Administration Agreement") between the Company and Sentry Select Capital Corp. ("Sentry Select") which was effective from July 1, 2006 (replacing the previous administration agreement) and on September 25, 2006, an Amended and Restated Management Agreement (the "Management Agreement") which was retroactively effective from July 1, 2006.

*(a) Administration Agreement*

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

For the six months ended June 30, 2007, \$240,000 (2006 - \$210,000) was charged to the Company in respect of the Administration Agreement. As of June 30, 2007 (December 31, 2006 - \$nil) \$nil was due to Sentry Select in respect of such fees.

*(b) Management Agreement*

The Management Agreement engages Sentry Select to provide investment management services in respect of the Company's merchant banking business and other investing activities, including searching for, evaluating and screening investment opportunities and conducting due diligence with respect to potential investments, for a quarterly fee of ¼ of 1.50% (the "Management Fee"), plus applicable taxes, based on the Company's closing consolidated book value from the previous quarter (subject to certain adjustments in accordance with the Management Agreement).

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

For the six months ended June 30, 2007 the Company incurred \$278,061 (2006 - \$Nil) in Management Fees to Sentry Select. No Performance Bonus has been incurred to date.

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**17. SHAREHOLDERS' EQUITY**

(a) *Share capital*

Authorized:

The authorized share capital of the Company consists of an unlimited number of Common Shares and an unlimited number of First Preferred Shares without nominal or par value.

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

| <u>Common shares</u>                                    | <u>Number of shares</u> | <u>Share capital</u> |
|---|-------------------------|----------------------|
| As at December 31, 2006                                 | 14,136,147              | \$ 38,592,016        |
| Common Shares issued during the year<br>as a result of: |                         |                      |
| Warrants exercised                                      | 38,024                  | 146,276              |
| Treasury offering                                       | 14,500,000              | 47,850,000           |
| Issue costs   | -                       | (3,913,424)          |
| As at June 30, 2007                                     | 28,674,171              | \$ 82,674,868        |

(b) *Warrants*

| <u>Common share purchase warrants</u>    | <u>Number of warrants</u> | <u>Carrying Value</u> |
|--|---------------------------|-----------------------|
| As at December 31, 2006                  | 731,169                   | \$ 253,716            |
| Exercised in 2007                        | (38,024)                  | (13,194)              |
| Warrants cancelled or expired<br>in 2007 | (693,145)                 | (240,522)             |
| As at June 30, 2007                      | -                         | \$ -                  |

**18. STOCK BASED COMPENSATION**

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

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

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

Pursuant to the Plan and approval by the Board of Directors on June 22, 2006, the Company granted, to certain directors, officers, employees and consultants an aggregate of 78,000 options to purchase Common Shares which may be exercised from issuance at a price of \$3.30 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on June 22, 2007 and June 22, 2008. The estimated fair value of these options on the date of grant was \$107,780 and will be expensed as they vest. On August 24, 2006 a director of the Company resigned and forfeited 3,000 (fair value of \$4,146 on date of grant) of his unvested options related to this grant.

Pursuant to the Plan and approval by the Board of Directors on December 22, 2006, the Company granted, to certain directors, officers, employees and consultants an aggregate of 765,500 options to purchase Common Shares which may be exercised from issuance at a price of \$3.10 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on December 22, 2007 and December 22, 2008. The estimated fair value of these options on the date of grant was \$939,414 and will be expensed as they vest.

For the six months ended June 30, 2007 the Company recorded a total expense of \$260,126 (June 30, 2006 - nil) in relation to C.A. Bancorp fiscal 2006 option grants as well as amounts expensed by Charter in the quarter.

The Company has not granted any options during the six months ended June 30, 2007.

The fair value of the incentive stock option grants on the date of grant were estimated using a Black-Scholes option pricing model. In determining the fair value of options, management was required to make assumptions that could have a material impact on the valuation. For the purposes of assuming a dividend yield management assumed a rate if 0%. Other assumptions used on the dates of grant including the risk-free rate and the expected volatility are disclosed in the following table which summarizes information about the stock options outstanding as of June 30, 2007:

| <b>Optionee Type</b> | <b># of<br/>Optioned<br/>Shares<br/>Outstanding</b> | <b>Vested at<br/>Mar. 31, 2007</b> | <b>Expiry<br/>Date</b> | <b>Exercise<br/>Price</b> | <b>Risk-<br/>Free<br/>Rate</b> | <b>Volatility<br/>Assumption</b> | <b>Value<br/>at Grant</b> |
|----------------------|---|------------------------------------|------------------------|---------------------------|--------------------------------|----------------------------------|---------------------------|
| Sept. 15, 2005 Grant |   |                                    |                        |                           |                                |                                  |                           |
| Employees            | 17,500  | 17,500                             |                        |                           |                                |                                  | 11,725                    |
| Non-Employees        | 2,000   | 2,000                              | Sept. 15, 2010         | \$ 2.00                   | 3.82%                          | 30%                              | \$ 1,340                  |
|                      | <b>19,500</b>                                       | <b>19,500</b>                      |                        |                           |                                |                                  | <b>13,065</b>             |
| Employees            | 37,000  | 24,667                             | June 22, 2011          | \$ 3.30                   | 4.45%                          | 40%                              | 51,127                    |
| Non-Employees        | 38,000  | 25,333                             | June 22, 2011          | \$ 3.30                   | 4.45%                          | 40%                              | 52,508                    |
|                      | <b>75,000</b>                                       | <b>50,000</b>                      |                        |                           |                                |                                  | <b>103,635</b>            |
| Dec. 22, 2006 Grant  |   |                                    |                        |                           |                                |                                  |                           |
| Employees            | 455,500   | 151,833                            | Dec. 22, 2011          | \$ 3.10                   | 3.80%                          | 38%                              | 558,985                   |
| Non-Employees        | 310,000   | 103,333                            | Dec. 22, 2011          | \$ 3.10                   | 3.80%                          | 38%                              | 380,429                   |
|                      | <b>765,500</b>                                      | <b>255,166</b>                     |                        |                           |                                |                                  | <b>939,414</b>            |
|                      | <b>860,000</b>                                      | <b>324,666</b>                     |                        |                           |                                |                                  | <b>\$ 1,044,389</b>       |

As at June 30, 2007, the weighted average contractual remaining life of the options was 4.421 (December 31, 2006 – 4.92) years.

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**19. FINANCIAL INSTRUMENTS**

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

**20. INCOME TAXES**

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated future income tax assets (liabilities) as at June 30, 2007 and December 31, 2006 are as follows:

|   | <u>June 30, 2007</u> | <u>December 31, 2006</u> |
|---|----------------------|--------------------------|
| Future income tax assets                                |                      |                          |
| Non-capital loss carryforwards                          | \$ 304,039           | \$ 604,681               |
| Deemed gain on conversion of<br>Charter shares to units | 487,500              | -                        |
| Unrealized loss on investments                          | 49,595               | 158,677                  |
| Capital assets  | 88,788               | -                        |
| Cumulative eligible capital pool expenses               | 211,319              | 27,921                   |
|   | <u>1,141,241</u>     | <u>791,279</u>           |
| Valuation allowance                                     | (543,240)            | (791,279)                |
| Net future tax asset                                    | <u>\$ 598,001</u>    | <u>\$ -</u>              |

As at June 30, 2007, the Company and its subsidiaries had non-capital losses available to be carried forward to offset income in future years of \$934,034. A valuation allowance against the benefit of these losses has been recognized in these financial statements but these losses are still available to offset future taxable income up to the date of their expiry. These losses expire as follows:

|      |                   |
|------|-------------------|
| Year |                   |
| 2015 | \$ 94,265         |
| 2026 | 161,087           |
| 2027 | 678,682           |
|      | <u>\$ 934,034</u> |

**C.A. BANCORP INC.**  
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**20. INCOME TAXES (continued)**

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

|  | <b>For the six months ended June 30,</b> |              |
|--|--|--------------|
|  | <b>2007</b>                              | <b>2006</b>  |
| Income before income taxes<br>and non-controlling interest | \$ 322,888                               | \$ (389,206) |
| Combined federal and provincial income tax rate            | 36.1%                                    | 35.9%        |
| Expected provision for income taxes                        | 116,627                                  | (139,725)    |
| Permanent differences                                      | (271,815)                                | (407)        |
| Temporary differences                                      | 95,174                                   | -            |
| Future tax rate change                                     | 10,202                                   | -            |
| Other  | 15,463                                   | -            |
| Unrecognized benefit of tax losses                         | 245,140                                  | -            |
| Valuation allowance  | -  | (139,318)    |
| Recognition of previously unrecognized tax losses          | (611,735)                                | -            |
| <b>Total tax recovery</b>                                  | <b>\$ (400,944)</b>                      | <b>\$ -</b>  |
| Current tax provision                                      | \$ 197,057                               | \$ -         |
| Future tax recovery  | (598,001)                                | -            |
| <b>Total tax recovery</b>                                  | <b>\$ (400,944)</b>                      | <b>\$ -</b>  |

**21. OTHER RELATED PARTY TRANSACTIONS**

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

*(a) Reimbursement of expenses*

As at June 30, 2007 \$136,456 (December 31, 2006 - \$176,381) was due to Sentry Select for reimbursement of third party expenses of the Company paid for by Sentry Select. The amount is due on demand and is non-interest bearing.

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**22. RISK MANAGEMENT**

*Market risk*

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

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

*Liquidity risk*

The Company has invested all of its Direct Investments in securities in an active market which can be readily disposed of. There can be no assurance that an active trading market for the securities will exist at all times, or that the prices at which the securities trade accurately reflect their values. Thin trading in a security could make it difficult to liquidate holdings quickly.

**23. SUBSEQUENT EVENTS**

On July 25, 2007 an additional 410,000 shares of C.A. Bancorp Inc. were issued for gross proceeds of \$1,353,000 pursuant to the exercise by the agents of their over-allotment option, in connection with the common share offering that closed on June 29, 2007.

On July 11, 2007 C.A. Bancorp and the Sentry Select Total Strategy Fund partnered in making a \$4.0 million private equity investment in Canadian independent broadcaster High Fidelity HDTV Inc. (“High Fidelity”) C.A. Bancorp provided \$2.75 million of the overall \$4.0 million investment in High Fidelity.

On August 3, 2007 Charter announced that it filed a final short form prospectus in each of the provinces and territories of Canada in connection with a marketed offering of trust units to raise proceeds of up to \$55 million. The offering price is \$3.45 per unit.

The offering of trust units is expected to close on August 9, 2007. C.A. Bancorp is expected to participate for \$15 million. After the closing the Charter trust unit offering C.A. Bancorp is expected to own approximately 31% of Charter.

**24. COMPARATIVE FIGURES**

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