

*Consolidated Financial Statements of*

**C.A. BANCORP INC.**

*March 31, 2008*  
*(Unaudited)*

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

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**March 31, 2008 (Unaudited)**

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# C.A. BANCORP INC.

## Consolidated Balance Sheets

As at March 31, 2008 (Unaudited) and December 31, 2007  
(thousands of Canadian dollars)

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
<b>ASSETS</b>		
Cash and cash equivalents (Note 7)	\$ 30,499	\$ 3,337
Accounts receivable	1,028	2,557
Loans and leases receivable (Notes 3 and 7)	84,998	82,840
Publicly traded investments (Note 4)	25,197	30,881
Investments in capital pool companies	145	151
Investment in Charter REIT (Note 5)	16,771	17,421
Investments in private entities (Note 6)	22,617	12,697
Common share portfolio (Note 7)	19,135	-
Forward contract (Note 7)	1,017	-
Future income tax	1,933	1,345
Intangible assets	1,130	1,165
Deferred costs, prepaid expenses and other assets	527	718
Goodwill	716	716
Capital assets	545	520
	<b>\$ 206,258</b>	<b>\$ 154,348</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 3,458	\$ 3,382
Due to broker	5,743	-
Credit facilities (Note 8)	60,452	67,435
Preferred shares, net of deferred issue costs (Note 7)	35,408	-
	<b>105,061</b>	<b>70,817</b>
NON-CONTROLLING INTERESTS (Note 7)	<b>21,189</b>	<b>1,015</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	81,608	82,603
Contributed surplus (Note 9)	2,577	1,990
Deficit	(4,177)	(2,077)
	<b>80,008</b>	<b>82,516</b>
	<b>\$ 206,258</b>	<b>\$ 154,348</b>

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

"John F. Driscoll"

..... Director

"Richard J. Zarzeczny"

..... Director

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

# C.A. BANCORP INC.

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

For the three months ended March 31 (Unaudited)

(thousands of Canadian dollars except per share amounts)

	2008	2007
REVENUE		
Interest and investment income	\$ 3,549	\$ 656
Asset management fees	276	147
Other fees and commissions	137	66
Revenues from rental properties	-	52
	<b>3,962</b>	<b>921</b>
NET RESULTS OF INVESTMENTS		
Realized (loss) gain on sale of publicly traded investments	(229)	40
Change in unrealized (loss) gain on publicly traded investments (Note 4)	(2,799)	401
Change in unrealized gain on private investments, held for trading (Note 6)	51	-
Unrealized loss on common share portfolio (Note 7)	(865)	-
Unrealized gain on forward contract (Note 7)	865	-
Equity participation in capital pool companies	(6)	(4)
Equity participation in Charter REIT	(196)	-
	<b>(3,179)</b>	<b>437</b>
EXPENSES		
General and administration	1,386	495
Interest expense	1,105	9
Management fees	322	131
Corporate and transaction costs	207	413
Stock based compensation	140	173
Investment management fee	80	80
Depreciation and amortization	65	10
Rental property operating costs	-	27
Recovery of credit losses	(23)	-
	<b>3,282</b>	<b>1,338</b>
NET (LOSS) INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	<b>(2,499)</b>	<b>20</b>
(RECOVERY) PROVISION FOR INCOME TAXES		
Current tax provision	167	-
Future tax recovery	(588)	(540)
	<b>(421)</b>	<b>(540)</b>
NET (LOSS) INCOME BEFORE NON-CONTROLLING INTERESTS	<b>(2,078)</b>	<b>560</b>
NON-CONTROLLING INTERESTS	22	(243)
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	<b>\$ (2,100)</b>	<b>\$ 803</b>
NET (LOSS) EARNINGS PER SHARE		
Basic	\$ (0.07)	\$ 0.06
Diluted	\$ (0.07)	\$ 0.06
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands)		
Basic	28,338	14,163
Diluted	28,338	14,537

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

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

**For the three months ended March 31 (Unaudited)**

(thousands of Canadian dollars except per share amounts)

	<b>Deficit</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Total</b>
Balance, December 31, 2006	\$ (2,094)	\$ -	\$ (2,094)
Net income for the period	803	-	803
Balance, March 31, 2007	\$ (1,291)	\$ -	\$ (1,291)
Balance, December 31, 2007	\$ (2,077)	\$ -	\$ (2,077)
Net loss for the period	(2,100)		(2,100)
Balance, March 31, 2008	\$ (4,177)	\$ -	\$ (4,177)

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

**C.A. BANCORP INC.**  
**Consolidated Statements of Cash Flows**  
**For the three months ended March 31 (Unaudited)**  
(thousands of Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (2,100)	\$ 803
Adjusted for non-cash items:		
Future tax recovery	(588)	(540)
Change in unrealized loss on publicly traded investments	2,799	(401)
Non-controlling interest	22	(243)
Stock based compensation	140	173
Realized loss (gain) on publicly traded investments	229	(40)
Equity participation in capital pool companies	6	4
Equity participation in Charter REIT	196	-
Depreciation and amortization	65	10
Amortization of lease intangibles - below-market rate leases	-	(2)
Non-cash interest income on private investments	(80)	-
Change in unrealized gain on private investments	(51)	-
AgriFinancial provision for credit losses	(23)	-
	<u>615</u>	<u>(236)</u>
Changes in non-cash operating working capital:		
Increase in current liabilities	5,933	1,217
Decrease (increase) in receivables	1,529	(504)
Decrease (increase) in deferred costs, prepaid expenses and other assets	191	(67)
<b>Net cash provided by operating activities</b>	<u><b>8,268</b></u>	<u><b>410</b></u>
<b>INVESTING ACTIVITIES</b>		
Loans and leases issued	(22,940)	-
Loans and leases repaid	20,691	-
Purchase of publicly traded investments	(1,339)	(19,688)
Sale proceeds of publicly traded investments	3,995	562
Investments in private entities	(9,789)	-
Rental properties acquired, net of non-cash consideration	-	(39,748)
Net change in restricted cash	-	(525)
Controlling interest in Charter REIT	-	1,555
Distributions received from Charter REIT	454	-
Purchase of capital assets	(54)	-
Other	-	8
<b>Net cash used in investing activities</b>	<u><b>(8,982)</b></u>	<u><b>(57,836)</b></u>
<b>FINANCING ACTIVITIES</b>		
Preferred shares issued	38,500	-
Credit facilities repaid	(6,983)	-
Common shares (repurchased) issued (Note 9)	(549)	146
Issue costs (Note 7)	(3,092)	(89)
Proceeds from new mortgage financing	-	27,525
Proceeds from bridge financing	-	6,000
Cash from non-controlling interest	20,152	-
Common share portfolio	(19,135)	-
Forward contract	(1,017)	-
<b>Net cash provided by financing activities</b>	<u><b>27,876</b></u>	<u><b>33,582</b></u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u><b>27,162</b></u>	<u><b>(23,844)</b></u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u><b>3,337</b></u>	<u><b>32,905</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><b>\$ 30,499</b></u>	<u><b>\$ 9,061</b></u>
<b>REPRESENTED BY:</b>		
Cash	\$ 1,775	\$ 3,750
Cash equivalents	28,724	5,311
	<u><b>\$ 30,499</b></u>	<u><b>\$ 9,061</b></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Income taxes paid	\$ 793	\$ -
Interest paid	\$ 590	\$ 8,623

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

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 1. CHANGES AND ADDITIONS TO ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these unaudited interim consolidated financial statements do not include all the requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2007. The unaudited interim consolidated financial statements are based on accounting principles consistent with those used and described in the audited annual consolidated financial statements, except as described below.

#### (a) Principles of consolidation

The Company's financial statements as at March 31, 2008 include the accounts of its legal subsidiaries (with ownership percentages in parentheses):

- C.A. Bancorp Ltd. (100%)
- C.A. Realty Management Inc. (100%)
- C.A. Bancorp Realty Finance Inc. (100%)
- C.A. Bancorp Telecom Inc. (100%)
- C.A. Bancorp Financial Corp. (90.5%)

The Company's accounts also include the wholly-owned subsidiaries of C.A. Bancorp Financial Corp.: AgriFinancial Canada Corp. and AgriFinancial Leasing Inc. collectively "AgriFinancial".

In addition, the Company consolidates the accounts of C.A. Bancorp Canadian Realty Finance Corporation which is considered a variable-interest-entity.

The Company's consolidated financial statements for the three-month period ended March 31, 2007 include revenue and expense accounts of its majority owned subsidiary Charter Real Estate Investment Trust ("Charter REIT") (Note 5) for the period of February 23, 2007 to March 31, 2007, the period during which the Company had a controlling interest in Charter REIT.

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

#### (b) Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used in the valuation of loans and leases receivable, valuation of intangible assets and goodwill, valuation of private equity investments, impairment of assets, loan provisions, useful life for amortization, and the calculation of the fair value of stock options. Actual results could differ from these estimates.

#### (c) Preferred shares

Issues costs related to the preferred shares, Series 1 of C.A. Bancorp Canadian Realty Finance Corporation (the "Preferred Shares") are deferred and netted against the Preferred Shares and amortized over their life using the effective interest method.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 1. CHANGES AND ADDITIONS TO ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

#### (d) *Future accounting changes*

##### *Goodwill and Intangibles*

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. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. The new sections establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

#### (e) *Variable interest entity*

Where the Company is considered the primary beneficiary of a variable interest entity (“VIE”) under CICA’s Accounting Guideline (“AcG”) 15, the Company has consolidated the accounts of such VIE with the portion related to other beneficiaries reflected as non-controlling interests on its balance sheet. See Note 7.

#### (f) *Changes in Accounting Policies*

Effective January 1, 2008, the Company adopted the following accounting standards issued by the CICA:

Section 3862 “Financial Instruments – Disclosures” requires extensive disclosures about the significance of financial instruments for an entity’s financial position and results of operation as well as quantitative and qualitative disclosures on the nature and extent of risks arising from financial instruments. Section 3863 “Financial Instruments – Presentations” replaces Section 3861. The required disclosures are contained in Notes 3, 4, 6, 7, 8, and 11.

Section 1535 “Capital Disclosures” requires qualitative and quantitative disclosures about the Company’s management of capital and its compliance with any externally imposed capital requirements. The required disclosures are contained in Note 12.

## C.A. BANCORP INC.

### Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

#### 3. LOANS AND LEASES RECEIVABLE

a) *Composition of loans and leases receivable*

	<b>March 31, 2008</b>		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and leases are comprised of the following:				
Commercial real estate loans	\$ 15,811	\$ 15,811	\$ 8,027	\$ 8,027
AgriFinancial loans	21,677	22,442	23,890	24,291
AgriFinancial leases	22,768	23,572	24,506	24,774
AgriFinancial credit card loans	26,379	25,694	28,219	27,486
	<b>86,635</b>	<b>87,519</b>	84,642	84,578
Less: allowance for impaired loans	1,637	-	1,802	-
	<b>\$ 84,998</b>	<b>\$ 87,519</b>	\$ 82,840	\$ 84,578

The investment in direct financing leases is composed of net minimum lease payments less unearned finance income which is recognized over the term of the lease according to a formula providing a constant rate of return on investment. Impaired loans and leases include foreclosed assets held for sale with a gross carrying value of \$1,109 and related allowance of \$586.

Management has estimated the fair value of AgriFinancial loans and leases by discounting the expected future cash flows at estimated current market rates for instruments with similar risks. Estimated current market rates are arrived at by using the period-end Canadian government ("risk-free") rates and adding a risk premium (which includes an average 1% loss assumption based on historical loss experience). Management estimates that the fair value of the AgriFinancial loans and leases receivable at the balance sheet date was \$72 million. The comparable carrying value of these assets, calculated by deducting unearned finance income from the loans and leases receivable balance, is \$69 million.

Management estimates that the fair value of the commercial real estate loans receivable approximate their carrying value. The fair value was based on current market rates for similar loans.

AgriFinancial loans and leases are secured by specific equipment. AgriFinancial credit card loans are unsecured. The AgriFinancial portfolio is primarily made up of loans for farm equipment and machinery – self propelled or pull type – as well as grain and fertilizer storage units. The assets themselves originate through licensed equipment dealers and vendors who in turn assign the loan or lease contract over to AgriFinancial. These assets make up the secured collateral for the loans and leases receivable.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

### 3. LOANS AND LEASES RECEIVABLE (continued)

#### b) Allowance for impaired loans and leases

The allowance for impaired loans and leases is comprised of the following:

	March 31, 2008				December 31, 2007
	Total Impaired Loans and Leases	Specific Allowances	Non-specific Allowances	Total Allowances	Total Allowances
Commercial real estate loans	\$ -	\$ -	\$ -	\$ -	\$ -
AgriFinancial loans	709	565	272	837	841
AgriFinancial leases	400	21	212	233	301
AgriFinancial credit card loans	-	-	567	567	660
	\$ 1,109	\$ 586	\$ 1,051	\$ 1,637	\$ 1,802

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

	AgriFinancial Loans and Leases	AgriFinancial Credit Card	Total
Allowance, December 31, 2007	\$ 1,142	\$ 660	\$ 1,802
Provision	24	(47)	(23)
Write-offs	(97)	(98)	(195)
Recoveries	1	52	53
Allowance, March 31, 2008	\$ 1,070	\$ 567	\$ 1,637

No comparatives have been provided for 2007 as this business was acquired in October 2007.

#### c) Terms of loans and leases receivable

Loans and leases are at fixed rates and have an average yield as follows:

	Commercial Real Estate Loans	AgriFinancial Loans	AgriFinancial Leases	Total
Less than 7.50%	\$ -	\$ 6,181	\$ 4,677	\$ 10,858
7.51% to 10.00%	600	14,906	17,904	33,410
10.01% to 12.50%	11,879	383	158	12,420
More than 12.50%	3,332	207	29	3,568
	\$ 15,811	\$ 21,677	\$ 22,768	\$ 60,256

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 3. LOANS AND LEASES RECEIVABLE (continued)

#### c) Terms of loans and leases receivable (continued)

Loans outstanding as at March 31, 2008 have maturities as follows:

Months	Commercial Real Estate Loans	Average Interest Rate	Agri- Financial Loans	Average Interest Rate	Agri- Financial Leases	Average Interest Rate	Total	Average Interest Rate
1 - 12	\$ 10,730	11.1%	\$ 1,998	8.5%	\$ 1,836	8.4%	\$ 14,564	10.4%
13 - 24	3,549	12.6%	3,913	8.1%	5,694	8.2%	13,156	9.3%
25 - 36	1,532	12.7%	5,745	8.1%	7,010	8.6%	14,287	8.9%
37 - 48	-	-	3,892	8.6%	3,688	8.9%	7,580	8.8%
49 - 60	-	-	6,129	8.2%	4,540	8.9%	10,669	8.5%
<b>Total</b>	<b>\$ 15,811</b>	<b>11.6%</b>	<b>\$ 21,677</b>	<b>8.2%</b>	<b>\$ 22,768</b>	<b>8.6%</b>	<b>\$ 60,256</b>	<b>9.3%</b>

The above tables exclude AgriFinancial credit card loans of \$26,379. Credit card loans are interest free for an average period of 35 days from the date of purchase. Thereafter, credit card loans are subject to minimum monthly payment and bear interest at either 11.9%, 15.9% or 22.5%. The rate assigned to an account is dependent upon its assessed strength and risk-potential scoring.

#### d) Concentration

Virtually all of AgriFinancial's loans and leases receivable are extended to agricultural producers. Approximately 84% of these loans and leases are to borrowers resident in one of the three prairie provinces of Canada.

The commercial real estate loans are extended to borrowers across Canada.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

### 4. PUBLICLY TRADED INVESTMENTS

In accordance with the Company's accounting policies a fair value (change in unrealized loss) adjustment of \$2,799 was expensed to the statement of operations on the publicly traded investments for the three months ended March 31, 2008 (three months ended March 31, 2007 – change in unrealized gain taken to income of positive \$401) bringing the total balance sheet adjustment to (\$6,403) at March 31, 2008 (December 31, 2007 – unrealized loss of \$3,604). As at March 31, 2008, the Company had 40 (December 31, 2007 - 47) publicly traded investments in its portfolio.

Industry Grouping	March 31, 2008			December 31, 2007		
	Cost	Fair Value	Unrealized Loss	Cost	Fair Value	Unrealized Loss
Industrials	\$ 13,054	\$ 10,300	\$ (2,754)	\$ 14,307	\$ 12,874	\$ (1,433)
Diversified and Other	8,872	7,946	(926)	8,430	8,014	(416)
Financial Services	6,711	4,364	(2,347)	6,862	5,567	(1,295)
Infrastructure	1,666	1,471	(195)	2,639	2,518	(121)
Energy and Commodities	1,297	1,116	(181)	2,247	1,908	(339)
<b>Total</b>	<b>\$ 31,600</b>	<b>\$ 25,197</b>	<b>\$ (6,403)</b>	<b>\$ 34,485</b>	<b>\$ 30,881</b>	<b>\$ (3,604)</b>

The manager of an investment with a carrying value of \$177 (December 31, 2007 - \$143) is controlled by the CEO/Chairman of the Company and the investment advisor of an investment with a carrying value of \$220 (December 31, 2007 – \$217) is controlled by the CEO and Chairman of the Company.

The CEO/Chairman of the Company is the Chairman of the general partner that manages an equity investment with a carrying value of \$705 (December 31, 2007 - \$796).

The Company held 132,400 units in the Sentry Select Total Strategy Fund (the "Fund") as at March 31, 2008 carried at \$1,173 and representing 8.2% of the total issued and outstanding units of the Fund. The Company is the Manager of the Fund.

The Company had 40 positions in its publicly traded investments portfolio as at March 31, 2008 carried at a fair value of \$25.2 million. The largest position in the portfolio was \$1.7 million and there were a total of 8 positions over \$1.0 million. The average investment size in the portfolio was \$0.6 million and the median investment size was \$0.5 million.

A 10% price move on the average investment in the portfolio would result in a pre-tax gain or loss on the statement of operations of \$60 and on the portfolio's largest position of \$170.

A 10% move on the entire portfolio would result in a pre-tax gain or loss of \$2.5 million.

## C.A. BANCORP INC.

### Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

#### 5. INVESTMENT IN CHARTER REIT

The Company controlled Charter REIT between February 23, 2007 and August 9, 2007 during which time it owned over 50% of Charter REIT's equity and consolidated the Charter REIT accounts for financial reporting purposes.

On a fair value basis, the Company's investment in Charter REIT had a value of \$11,512 (December 31, 2007 - 15,778) as at March 31, 2008 based on the closing bid price of \$1.97 (December 31, 2007 - \$2.70).

#### 6. INVESTMENTS IN PRIVATE ENTITIES

Issuer and Investment Type	March 31, 2008			December 31, 2007		
	Cost	Carrying Value	Difference	Cost	Carrying Value	Difference
<b>High Fidelity HDTV Inc.</b>						
Debenture	\$ 2,245	\$ 2,451	\$ 206	\$ 2,245	\$ 2,381	\$ 136
Equity	455	601	146	455	548	93
Equity Option	50	45	(5)	50	47	(3)
<b>Birmingham Foundation Solutions</b>						
Convertible Preferred Shares	8,280	8,280	-	8,280	8,280	-
Common Shares	920	920	-	920	920	-
<b>Windward Telecom Limited</b>						
Equity	201	201	-	201	201	-
Convertible Preferred Shares	509	509	-	-	-	-
<b>Kingswood Estates</b>						
Partnership Units	6,000	6,000	-	320	320	-
<b>Salbro Bottle Group</b>						
Debenture	3,067	3,077	10	-	-	-
Equity	533	533	-	-	-	-
<b>Total</b>	<b>\$ 22,260</b>	<b>\$ 22,617</b>	<b>\$ 357</b>	<b>\$ 12,471</b>	<b>\$ 12,697</b>	<b>\$ 226</b>

The difference between cost and carrying value of the above investments is comprised of two components: the unrealized gain (loss) on investments held-for-trading of \$51 which is reflected as the change in unrealized gain on private investments, and interest income (including the amortization of discounts on debentures) of \$80 not received in cash on securities classified as held-to-maturity.

(a) *High Fidelity HDTV Inc.*

The fair value of the equity component of the investment was estimated based on the present value of the estimated enterprise value in three years assuming a discount rate of 45%. The enterprise value was estimated based on current earnings and growth in subscribers.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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

#### (b) *Windward Telecom Limited*

On February 21, 2008, the Company, through its wholly subsidiary, C.A. Bancorp Telecom Inc., completed a U.S. \$700 equity investment in Windward Telecom Limited (“Windward”). U.S. \$200 of the investment was funded in 2007.

The Company’s investment is structured as \$201 in common shares representing a 10% interest in Windward which yields an annual management fee of 6% and \$509 in convertible, redeemable, retractable preferred shares paying a 13% annual dividend, with the preferred shares being convertible into 25% of Windward’s common shares under certain conditions.

#### (c) *Kingswood Estates*

On January 23, 2008, the Company closed its \$6 million investment in a newly formed limited partnership (the “Real Estate LP”) that acquired a 360-unit apartment complex in Kitchener, Ontario (the “Kingswood Estates”) for an aggregate purchase price of \$23 million. The Company invested \$6 million for an 80% limited partnership interest in the Real Estate LP, with the residual \$1.5 million equity interest invested by Centurion Apartment Properties Limited Partnership and an outside investor. The Real Estate LP financed the remaining \$15.5 million of the \$23 million Kingswood Estates purchase price through financing provided by the assumption of three existing mortgages.

#### (d) *Salbro Bottle Group*

On February 29, 2008, the Company funded \$3.6 million in the privately held Salbro Bottle Group of companies by way of debt and equity. The Company’s investment is structured as a secured debenture with a 12% coupon and nominal cost warrants providing the Company with a base 12.5% equity interest.

The initial \$3.6 million cash investment was allocated to the securities received based on the estimated fair value of each investment. The debenture was originally fair valued using a discounted cash flow analysis with an effective interest rate of 18% and 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. The projected enterprise value was based on forecasted EBITDA (earnings before interest, taxes, depreciation and amortization).

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 7. C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION

On February 22, 2008, the Company closed an initial public offering (“IPO”) of Preferred Shares for a newly created mutual fund corporation, C.A. Bancorp Canadian Realty Finance Corporation (“CRFC”). On March 20, 2008, the Company closed an over-allotment option pursuant to which the agents exercised their right to acquire additional Preferred Shares. An aggregate of 1,540,000 Preferred Shares were issued at \$25 each for total gross proceeds raised of \$38.5 million. The Preferred Shares have a ten year term and pay quarterly distributions to investors at a rate of 6.75% p.a.

The Company purchased 785,000 Class A shares of CRFC at \$10 per share for a total cost of \$7.85 million. The Class A shares are subordinate to the Preferred Shares and have no fixed distribution schedule (as CRFC is consolidated in the Company’s accounts the Class A shares are eliminated on consolidation). CRFC is a single-purpose entity created to provide investors with exposure to a portfolio of commercial real estate loans and mortgages in Canada (the “Portfolio”) which are held in a limited partnership (the “Partnership”) managed by the Company through its wholly-owned subsidiary C.A. Bancorp Ltd.

CRFC obtains economic exposure to the Portfolio through the simultaneous purchase of a basket of Canadian common shares (the “Basket”) and the execution of an over-the-counter derivative contract (the “Forward Contract”) with a subsidiary of a major Canadian Schedule I bank. The Forward Contract is designed to hedge CRFC’s market risk to the Basket (\$865 for the period ended March 31, 2008) and to provide the return of the Portfolio net of any transaction and operating costs.

The Basket consists of highly liquid non-dividend paying Canadian common shares which are typical of structured transactions of this type.

Upon closing of the CRFC IPO the entire portfolio of commercial real estate loans held by the Company totaling \$12.7 million (December 31, 2007 - \$8.0 million) was sold to the Partnership at carrying value which equaled fair value.

The Company has determined that CRFC and the Partnership are both variable interest entities under AcG-15 and the Company is the primary beneficiary of both entities.

The Company has agreed to subscribe for, or arrange subscription for, additional Class A shares of CRFC on a quarterly basis if the face value of the outstanding Preferred Shares exceeds the tangible net book value of the Class A shares by a ratio of greater than nine to one.

As at March 31, 2008, the fair value of the Preferred Shares was \$37,345 or \$24.25 per share determined using the closing ask price.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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

The following financial statement captions include balances on account of CRFC and the Partnership (balance sheet items as at March 31, 2008 and revenue and expense items for the period from February 22, 2008 to March 31, 2008):

	Dr. (Cr.)
<i>Balance sheet</i>	
Cash	\$ 28,666
Accounts receivable	119
Loans	15,811
Common share portfolio	19,135
Forward contract	1,017
Accounts payable	(1,470)
Preferred shares, net of deferred issue costs	(35,408)
Non-controlling interest	(20,152)
Equity	(7,788)
<i>Statement of Operations</i>	
Interest income	(268)
Unrealized loss on common share portfolio	865
Unrealized gain on forward contract	(865)
Interest expense	291
General and administration	47
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# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 8. CREDIT FACILITIES

#### *AgriFinancial*

AgriFinancial Canada Corp. and AgriFinancial Leasing Inc. have entered into a credit agreement (the "Credit Agreement") with Credit Union Central of Canada ("CUCC") and certain provincial Credit Union Central organizations ("Provincial Centrals") to provide a \$118 million senior debt financing to fund the acquisition of the assets, liabilities and ongoing operations of the AgriFinancial business purchased from Canadian Cooperative Agricultural Financial Services. The Credit Agreement extends to March 31, 2009.

The Credit Agreement provides for three separate credit facilities. Each facility is separately funded in agreed upon proportions by CUCC and the Provincial Centrals. As at March 31, 2008, a total of \$60,451 (December 31, 2007 - \$66,536) was outstanding at an average interest rate of 4.78% (December 31, 2007 - 5.28%).

In addition, a demand loan payable to CCAFS of \$899 was outstanding at year-end at a rate of 6.75%. In January 2008, this demand loan was paid in full.

### 9. 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:

	(000s) Number of common shares	Share capital
	<u>                    </u>	<u>                    </u>
As at December 31, 2007	28,683	\$ 82,603
Common Shares cancelled during the period as a result of normal course issuer bid	(345)	(995)
As at March 31, 2008	<u>28,338</u>	<u>\$ 81,608</u>

On August 8, 2007, the Company announced its intention to purchase and cancel its common shares through a normal course issuer bid made through the facilities of the Toronto Stock Exchange ("TSX"). The Company may purchase up to 7,000 shares in any trading day. As at March 31, 2008, 746,100 common shares were repurchased and cancelled through the normal course issuer bid at an average price of \$1.94 per share (including commission).

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

### 9. SHAREHOLDERS' EQUITY (continued)

(b) *Contributed surplus*

	<u>Carrying Value</u>
As at December 31, 2007	\$ 1,990
Net increase related to stock based compensation	141
Normal course issuer bid	446
<u>As at March 31, 2008</u>	<u>\$ 2,577</u>

### 10. SEGMENT DISCLOSURES

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

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

	<u>Three months ended March 31</u>							
	<u>Financial Services</u>		<u>Investing and Asset Management</u>		<u>Real Estate</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007	2008	2007
Revenues	\$ 2,498	\$ -	\$ 1,302	\$ 860	\$ 162	\$ 61	\$ 3,962	\$ 921
Net results of investments	-	-	(2,982)	437	(197)	-	(3,179)	437
Expenses	(2,251)	-	(962)	(736)	(69)	(602)	(3,282)	(1,338)
Income (loss) before taxes	247	-	(2,642)	561	(104)	(541)	(2,499)	20
Net (provision) recovery of income taxes	(136)	-	552	540	5	-	421	540
Net income (loss) before NCI	111	-	(2,090)	1,101	(99)	(541)	(2,078)	560
Non-controlling interests	(22)	-	-	-	-	243	(22)	243
Net (loss) income	\$ 89	\$ -	\$ (2,090)	\$ 1,101	\$ (99)	\$ (298)	\$ (2,100)	\$ 803
Total assets	\$ 137,877	\$ -	\$ 45,260	\$ 32,327	\$ 23,121	\$ 42,788	\$ 206,258	\$ 75,115

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 11. RISK MANAGEMENT

#### *Market risk*

The Company is exposed to market risk on its portfolio of publicly traded investments.

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

#### *Liquidity risk*

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

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

#### *Interest rate sensitivity and risk management*

The Company is exposed to interest rate risk as legal entities that make up the Company borrow funds (liabilities) at both fixed and floating rates.

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 vis-à-vis the costs of such hedging arrangements.

The following are the balance sheet financial instrument items that have significant interest rate components to them: the loans and leases (including both AgriFinancial and the CRFC Portfolio), and the credit facilities.

The Company is exposed to the net interest spread on its AgriFinancial assets and the credit facilities. The Company estimates that a 50bps decrease in the Bank of Canada overnight rate will increase net income before taxes by approximately \$300. Conversely, a 50bps increase in the Bank of Canada overnight rate will decrease net income before taxes by approximately \$300.

The Company does not have any material interest rate risk exposure on the spread between its CRFC Portfolio and the Preferred Shares as the fair value of the CRFC Portfolio's assets are not considered to be significantly sensitive to interest rate movements and the Preferred Shares are carried at amortized cost with a fixed interest rate expense throughout the term of the Preferred Shares.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 11. RISK MANAGEMENT (continued)

#### *Credit Risk*

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

The Company does not have any significant credit risk exposure to any single counterparty except overnight term deposits placed with the Royal Bank of Canada ("RBC") of \$28.7 million as at March 31, 2008 and the counterparty risk on any unrealized mark-to-market gains on the Forward Contract with TD Global Finance Inc. – a wholly owned subsidiary of Toronto Dominion Bank of Canada ("TD"). RBC and TD both have senior debt ratings of AA- from S&P.

CRFC's portfolio (commercial real estate mortgages and loans) is diversified by individual borrower or issuer, general real estate focus (i.e. retail, commercial, industrial etc.) and term. Mortgages and loans of the Partnership are subject to approval by a credit committee, based on their expected return relative to risk characteristics, taking into consideration factors such as credit quality and duration.

The AgriFinancial loans and leases portfolio is diversified across 2,866 retail accounts (averaging \$15) and 27 industrial accounts (averaging \$21). The largest account outstanding equals \$423. The AgriFinancial credit card portfolio is spread across 27,000 cards issued with the average outstanding balance of \$1. The largest outstanding balance equals \$75.

Credit risk related to AgriFinancial refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and in the case of Agrifinance products, obtaining sufficient collateral, along with appropriate minimum equity positions by the client. For the AgriCard product, bureau updates and score reviews are performed on all accounts on a regular basis with appropriate action taken to monitor, suspend, or close accounts that are not meeting minimum required criteria. Overall, 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 representing several geographical locations across Canada.

Leases, loans, and line of credit products are approved by qualified credit personnel, each with an appropriate credit approval limit. All submissions are entered into standardized scoring and assessment programs to compare against policy and risk standards so that consistent recommendations are given for the approver to consider. As requests for credit increase in size, approvals are referred up to more experienced personnel, with approvals at the highest level being approved by a credit committee. Risk based pricing based on credit and collateral quality, among other factors, is also employed at time of approval or during the term if the applicable product allows for it. For AgriFinancial leases and loans, there is always the option to seek recourse terms from the originating vendor, subject to appropriate experience and financial strength, for submissions where there may be concerns with credit, collateral, or terms.

# C.A. BANCORP INC.

## Notes to the Consolidated Financial Statements

March 31, 2008 (Unaudited)

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

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### 12. CAPITAL DISCLOSURES

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

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

#### *CRFC*

The Company has issued debt in the form of fixed term Preferred Shares of CRFC to fund commercial real estate loans and has credit facilities which funds approximately 82% of the assets in AgriFinancial. The Preferred Shares and credit facilities are non-recourse to C.A. Bancorp Inc.

The Company considers its shareholder's equity to include the Preferred Shares, credit facilities of AgriFinancial. The Company seeks to optimize its cost of capital by employing a prudent mix of debt and equity.

#### *AgriFinancial*

The Credit Agreement obligates AgriFinancial Canada Corp. to maintain a stated total debt to capitalization ratio of no more than 9:1, to abide by the various terms of the Credit Agreement, to meet various reporting requirements and to refrain from certain actions. Failure by AgriFinancial Canada Corp. to maintain these covenants could result in a default under the Credit Agreement. A default would provide the CUCC and the Provincial Centrals with certain rights to cease further advances, to demand repayment of the facilities and/or to realize on security that has been granted. The Company is in compliance with the total debt to capitalization covenant.

The Credit facilities are secured by a financial support agreement made by C.A. Bancorp Financial Corp. to ensure AgriFinancial Canada Corp. remains in compliance with certain covenants, a fixed and floating charge debenture over all assets in the amount of \$150 million, a first-ranking securities pledge agreement by C.A. Bancorp Financial Corp. over C.A. Bancorp Financial Corp.'s debt and equity in AgriFinancial Canada Corp. and an assignment of certain insurance proceeds.

### 13. SUBSEQUENT EVENTS

On April 25, 2008, C.A. Bancorp Inc's shareholders passed a motion to implement a mandatory market purchase plan pursuant to which, C.A. Bancorp Inc. will use its best efforts to purchase for cancellation its common shares if they are offered at a price less than 90% of the net book value per common share on the principal stock exchange on which they are traded, currently the TSX. The obligation will be subject to a limit in any calendar quarter of 1.25% of the number of outstanding common shares at the beginning of each quarter. The obligation is also subject to certain conditions to ensure that the marketability of the common shares is not seriously impaired, C.A. Bancorp Inc. has adequate liquidity, C.A. Bancorp Inc. does not have to liquidate securities other than in an orderly manner, there is no material legal action instituted or threatened that materially adversely affects C.A. Bancorp Inc. and that there is no general suspension of trading of C.A. Bancorp Inc's common shares.