

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007, (figures in thousands of Canadian dollars except per share amounts unless otherwise stated)

This Management's Discussion and Analysis (MD&A) presents an analysis of the consolidated results and financial condition of C.A. Bancorp Inc. ("C.A. Bancorp" or the "Company") which includes the business of C.A. Bancorp, its wholly-owned subsidiaries, and the consolidated revenues and expenses of Charter Real Estate Investment Trust (formerly Charter Realty Holdings Ltd. (Charter) and referred to herein as "Charter REIT") for the period from February 23, 2007 to August 9, 2007 (when the Company held greater than 50% of Charter's equity), of which the Company continues to hold 33% of Charter REIT's equity as at December 31, 2007. The following information should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2007.

This document contains forward looking statements, which are qualified by reference to, and should be read together with the "Caution Regarding Forward-Looking Information" legal notice on page 37.

This MD&A is dated March 10, 2008 and presents material information up to this date.

On April 30, 2007, the Company's common shares were consolidated on a 10-for-1 basis (the Consolidation) and the consolidated common shares were contemporaneously listed on the Toronto Stock Exchange (TSX), trading under the symbol BKP. Prior to the Consolidation, the common shares were listed on the TSX Venture Exchange (TSXV).

All information contained herein with respect to the Company's common shares, warrants and options to purchase common shares is presented on a post-Consolidation basis.

This MD&A is divided into the following sections:

- |  |  |
|--|--|
| I. Company Overview  |  |
| II. 2007 Year in Review  | VIII. Corporate Outlook                                  |
| III. Investments Review and Outlook  | IX. Transactions with Related Parties                    |
| IV. Results of Operations  | X. Critical Accounting Policies and Accounting Estimates |
| V. Summary of Fourth Quarter 2007 Results  | XI. Factors That May Affect Future Results               |
| VI. Summary of Quarterly Results   | XII. Risk Management                                     |
| VII. Financial Position, Liquidity, Capital Resources and Off-Balance Sheet Arrangements | XIII. Internal Controls Over Financial Reporting         |
|  | XIV. Caution Regarding Forward-Looking Information       |

### I. COMPANY OVERVIEW

#### A) DESCRIPTION OF THE BUSINESS

C.A. Bancorp is a publicly traded Canadian merchant bank and alternative asset manager that provides investors with access to a range of private equity and other alternative asset class investment opportunities. The Company is focused on investments, either directly or through entities managed by it, in small- and middle-capitalization public and private companies, with an emphasis on the industrials, real estate, infrastructure and financial services sectors. The Company has approximately \$300 million in gross assets invested (\$154 million on balance sheet) and under management (approximately \$146 million).

C.A. Bancorp's revenues from its investment and asset management activities include dividends, interest, commissions and capital gains, plus management fees and performance fees on managed funds. The Company also consolidates the operations of subsidiaries under its control, including AgriFinancial Canada Corp. This diversified revenue stream is designed to minimize volatility, reduce risk and maximize return on shareholders' equity.

#### B) DIRECT INVESTING

The Company focuses its investment efforts on both public and private companies which: 1) present unique growth opportunities, 2) the Company believes to be under-valued and/or under-performing due to poor management execution or inappropriate capital structure, or 3) are undergoing a significant transition, such as a change in senior management or succession in ownership.

The Company experienced significant small- to mid-cap sized private company investment deal flow (buy-out, refinancing and growth situations), with many proprietary opportunities arising out of management's relationships. Management has a rigorous process to qualify new investment opportunities before they enter into the deal pipeline. Once qualified, a deal team is assigned to execute the Company's investment review process with the goal of structuring, closing and managing private investments that have the potential to create significant value for the Company's shareholders.

The Company has also made "toehold" and "event/catalyst" driven investments in a number of public companies under different investment theses. Toehold investments are made under the thesis of pursuing an investment strategy such as a going-private transaction on its own or with a partner. In addition, C.A. Bancorp has also made a series of "event /catalyst" driven investments in Canadian income trusts where the Company believes a change in the ownership structure, such as a take-over, will occur prior to the implementation of the proposed income trust taxation changes.

See "Investments Review and Outlook" for a discussion of the Company's investments to date.

C) ASSET MANAGEMENT

The Company believes that establishing funds, raising capital and providing ongoing management are integral components of its business model. This includes public and private funds targeting both retail and institutional investors.

The Company actively manages the private equity allocation in its first fund, Sentry Select Total Strategy Fund (the "Total Strategy Fund") which trades under the symbol TSF.UN on the TSX, develops new funds, and continues to explore new fund opportunities that will generate management and performance fees for the Company. The managed funds will maintain the Company's typical investment objectives and provide investors with exposure to alternative asset classes.

C.A. Bancorp's first structured product, the Total Strategy Fund, raised net proceeds of \$51.4 million in 2006, up to 25% of which may be invested in private equity investments. As of December 31, 2007, the Total Strategy Fund was valued at approximately \$55.3 million based on net asset value and had \$2.1 million invested in its private portfolio. Total Strategy Fund paid a special distribution to unitholders totaling \$0.3 million. The Company is the manager of the Total Strategy Fund and earns asset management fees and performance fees.

On February 20, 2008, the Company announced that 71% of the units in the Total Strategy Fund were submitted for an annual redemption. The net assets of the Fund are expected to be approximately \$16 million post-redemption.

C.A. Bancorp commenced marketing its first non-public private equity fund. The private equity fund is being formed to provide institutional and high net worth investors the opportunity to capitalize on a variety of small- to mid-cap investment opportunities in primarily private companies. The fund has received an institutional commitment and is increasing its marketing to other institutions and high net worth investors.

In February 2008, C.A. Bancorp closed the C.A. Bancorp Canadian Realty Finance Corporation (CRFC) initial public offering issuing 1,440,000 Preferred Shares, Series 1 (Preferred Shares) for aggregate gross proceeds of \$36 million. The Preferred Shares which trade on the TSX under the symbol RF.PR.A, yield tax-efficient cash distributions of 6.75% per annum and have a term of 10 years. The CRFC was created to provide shareholders with exposure to the investment performance of an actively managed portfolio of secured loans and mortgages in the Canadian commercial real estate sector on a tax-efficient basis. The Company is the manager and subordinate shareholder of CRFC and realizes annual management fees. The surplus net income or loss of CRFC is consolidated into the financial statements of the Company.

D) FINANCINGS

The Company completed a prospectus offering in November 2006 which, together with the exercise of the agents' over-allotment option in December 2006, raised gross proceeds of \$38.75 million from the issuance of 12.92 million common shares at \$3.00 per common share.

The Company completed another prospectus offering in June 2007 which raised gross proceeds of \$47.85 million from the issuance of 14.5 million common shares at \$3.30 per common share.

Immediately subsequent to the June 2007 offering and as at June 30, 2007 the Company had 28.67 million common shares outstanding. On July 25, 2007 an additional 410,000 common shares were issued for gross proceeds of \$1.35 million pursuant to the exercise by the agents of their over-allotment option in connection with the June 2007 offering.

On August 10, 2007, C.A. Bancorp instituted a normal course issuer bid (NCIB) in accordance with the policies of the TSX. As of December 31, 2007, the Company purchased and cancelled 400,700 common shares.

E) SUBSIDIARIES

The Company, through its wholly-owned subsidiary C.A. Realty Management Inc. (Realty Management), provides strategic, advisory, management and administrative services to Charter REIT and receives a 0.30% per annum ongoing administration fee on Charter REIT's assets and a one-time acquisition fee of 0.50% of the value of any real estate assets acquired by Charter REIT.

The Company, through its wholly-owned subsidiary C.A. Bancorp Realty Finance Inc. (Realty Finance), provides commercial mortgage brokerage services to a variety of real estate borrowers in Canada. Realty Finance earns commissions in return for providing these services.

The Company, through its wholly-owned subsidiary C.A. Bancorp Ltd., has a Limited Market Dealer registration as well as an Investment Counsel and Portfolio Management registration with the Ontario Securities Commission.

The Company, through its majority-owned subsidiary C.A. Bancorp Financial Corp. (Financial Corp.), owns 100% of AgriFinancial Canada Corp. C.A. Bancorp and Total Strategy Fund are the sole shareholders of Financial Corp., with C.A. Bancorp holding approximately 90.5% and Total Strategy Fund holding approximately 9.5% of the issued and outstanding shares (see "Investments Review and Outlook").

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company, through its wholly-owned subsidiary C.A. Bancorp Telecom Inc. has invested in Windward Telecom Limited (see Investments Review and Outlook).

### F) ADMINISTRATION

Sentry Select Capital Corp. (Sentry Select) provides management and administrative services to C.A. Bancorp under a management agreement and an administration agreement (see "Transactions with Related Parties"). Sentry Select is a portfolio manager and mutual fund dealer engaged in the business of promoting and managing investment funds in Canada. The agreements between the Company and Sentry Select also provide C.A. Bancorp with access to the expertise and experience of Sentry Select's portfolio managers, portfolio advisors and research analysts. Sentry Select may also develop structured products to be managed by C.A. Bancorp. Sentry Select was formed by John F. Driscoll, who is President, Chief Executive Officer and Chairman thereof. Mr. Driscoll is also the controlling equity owner of Sentry Select. As at December 31, 2007, Sentry Select had approximately \$8.0 billion in gross assets under management.

## II. 2007 YEAR IN REVIEW

C.A. Bancorp achieved a number of its stated goals in 2007. The Company was active executing its business plan which included investing in both private and public enterprises. These investments have been centred in the four industry sectors in which the Company focuses: industrials, real estate, infrastructure and financial services.

During the fiscal year 2007, the Company:

- Grew assets invested and under management to approximately \$300 million;
- Built out its management team to 11 full-time professionals with backgrounds in merchant banking, private equity, real estate, financial services and management consulting;
- Reviewed over 130 private investment opportunities in both public and private companies, pertaining to buy-out, re-financing and growth capital situations;
- Closed three private equity investments and subsequent to year-end closed an additional three private equity investments (see "Investments Review and Outlook");
- Established its commercial real estate lending division and subsequent to year-end sponsored the launch of CRFC that will provide tax-efficient exposure to the investment performance of commercial real estate loans;
- Invested in a portfolio of public securities under different investment theses such as "toehold" and "event/catalyst" driven investments; and,
- Provided sponsor capital to Charter REIT in conjunction with Charter REIT's initial public offering and put in place a management contract that will provide the Company with recurring management and deal fees.

## III. INVESTMENTS REVIEW AND OUTLOOK

### A) PRO-FORMA ALLOCATION OF C.A. BANCORP'S INVESTED CAPITAL (UNCONSOLIDATED)

	In C\$ millions	
Publicly Traded Investments, net of other	25.6	
Charter REIT	17.4	
AgriFinancial Canada Corp.	9.6	
Birmingham Foundation Solutions	9.2	
C.A. Bancorp Canadian Realty Finance Corporation	7.4	
Kingswood Property	6.0	
Salbro Bottling	3.6	
High Fidelity HDTV	2.9	
Windward Telecom	0.7	
	82.4	

Pro-forma carrying value of investments per the unconsolidated financial statements as at year-end and updated for effects of material transactions announced subsequent to year-end.

### B) INVESTMENT IN HIGH FIDELITY HDTV INC.

C.A. Bancorp invested in High Fidelity HDTV Inc. (High Fidelity) in July 2007. C.A. Bancorp's investment was intended to finance the growth of High Fidelity as it strengthens its position as the leading Canadian all high-definition specialty channel broadcaster. The Company made a \$2.75 million investment alongside a \$1.25 million investment made by the Total Strategy Fund (which the Company co-manages with Sentry Select).

C.A. Bancorp's investment is a debenture with a 10% coupon, equity for 6.9% of the investee and an option to purchase an additional 3.4% of equity.

High Fidelity is a privately held, Toronto-based company that produces specialty television channels in high definition (HD) format. High Fidelity currently has four HD channels and 10 additional licence approvals from the CRTC.

High Fidelity broadcasts a suite of four distinctive all-HD channels: *Rush HD*, *Equator HD*, *Oasis HD* and *Treasure HD*. Each of these channels provides programming in a specific genre. The four HD channels are available throughout Canada via Bell ExpressVu, the nation's largest digital and HD provider. High Fidelity's channels are also available on SaskTel, Access Communications, The Source, Canadian Cable Systems Alliance, Aurora Cable and Westman Communications. High Fidelity generates monthly recurring revenue based on the number of subscribers to its channels and is continuing to broaden its customer base through the active pursuit of other carriers to launch its channels.

C.A. Bancorp's investment allows High Fidelity to expand its programming library. In particular, it assists with the expansion of the Canadian portion of the library, augmenting programming secured under long-term contracts from Rainbow Media and will also allow High Fidelity to potentially expand the number of channels it can offer to its cable, satellite and internet protocol television (IPTV) carrier clients.

High Fidelity represents an attractive investment opportunity for C.A. Bancorp for the following reasons:

- Regular recurring monthly cash flow – protected by long-term contracts;
- Management experience – the senior management team has started and grown other specialty channels with proven success including Discovery Channel Canada. The senior management team is also a significant investor in High Fidelity; and,
- High margin potential business model – the cost to serve the incremental customer is negligible. Once the programming is in place, profitability bears a direct relationship with the number of subscribers added.

High Fidelity has been performing above initial expectations. Subscriber growth since the investment was made has been stronger than forecast, exceeding C.A. Bancorp's initial growth assumptions. This has been driven by two factors: significant growth in HD subscribership at its main customer, Bell Express Vu, and the broadening of its base of cable and telephone companies carrying its channels. Additionally, overall programming costs have been slightly lower than anticipated due to High Fidelity's success in selling its in-house productions to foreign broadcasters for exhibitions abroad. Proceeds from these sales partially defray in-house production expenses.

Moving forward into 2008, High Fidelity is well positioned to take advantage of several new opportunities in the Canadian broadcasting landscape. The management team is focused on obtaining further diversification in its distribution base of satellite and terrestrial providers, seeking sources of programming able to complement its existing library, and developing High Fidelity's own high-quality Canadian-produced content that has demand beyond the Canadian market.

The exit strategy for this investment may take several forms at the end of the debenture term, including a sale to a strategic buyer, an internal recapitalization or an initial public offering.

#### C) INVESTMENT IN AGRIFINANCIAL CANADA CORP.

On October 12th, 2007, C.A. Bancorp, through a newly created subsidiary, AgriFinancial Canada Corp. (AgriFinancial) acquired the agricultural financial service businesses of *Agrifinance* and *AgriCard* which totaled approximately \$90 million including closing costs. The acquisition serves as an investment in the financial services sector for C.A. Bancorp. The \$90 million acquisition and closing costs were financed by approximately \$78.5 million of debt, the assumption of certain liabilities, and the investment of \$10.5 million of equity.

Headquartered in Winnipeg, *Agrifinance* and *AgriCard* (businesses) have been leading independent providers of financing solutions to the Canadian agricultural sector for over 20 years. *Agrifinance* provides specialized agricultural equipment leasing and financing created specifically for Canadian farmers and has a well established market position and a coast to coast distribution network. *AgriCard* is a credit card designed specifically for farm-related purchases. Cardholders utilize the card to purchase crop inputs, equipment parts, supplies and services in Canada. Similar to *Agrifinance*, *AgriCard* has also benefited from a well established market position and coast-to-coast network.

Based on a positive outlook for the Canadian agriculture sector over the next five years, and underpinned by the strength of the underlying farm credit profile and a very strong management team, we believe that AgriFinancial can experience significant growth. This growth is anticipated to come through increasing the funding available to clients to finance the expansion in the agriculture sector as well by as introducing new product changes to maintain AgriFinancial's competitiveness.

AgriFinancial represents an attractive investment for the following reasons:

- C.A. Bancorp and the AgriFinancial senior management team are committed to growing the business;
- *Agrifinance* and *AgriCard* have well-established market positions;
- High-quality composition of the AgriFinancial asset portfolios provide recurring revenue streams;
- Extensiveness of the distribution network that markets *Agrifinance* and *AgriCard*; and
- The number of growth initiatives AgriFinancial can pursue is extensive.

AgriFinancial has arranged \$118 million in senior debt financing through a syndicate of Canadian credit unions and one other financial institution. The credit agreement under which the financing is provided is for an 18-month period and provides AgriFinancial with a competitive cost of funds. As part of the credit agreement, AgriFinancial is required to maintain a debt-to-tangible equity ratio of no more than nine to one at all times.

C.A. Bancorp believes its investment in AgriFinancial has the potential to create substantial value for C.A. Bancorp shareholders, as *Agrifinance* and *AgriCard* are established brands in the agricultural sector, and the management team has the skills, experience, vision and the backing of C.A. Bancorp to grow the business significantly. AgriFinancial's senior management team has committed to investing alongside C.A. Bancorp and is eager to apply its expertise, experience and enthusiasm to maximize the growth potential of both *Agrifinance* and *AgriCard*, taking advantage of the very positive trends in the agricultural sector.

Reflecting on 2007, management believes increases in commodity prices combined with an average to above-average crop yield across much of the nation translated into a more positive economic environment for agricultural producers and suppliers in 2007. This had a positive effect on the second half of 2007 agricultural equipment sales as well as pre-sales for 2008 as many of the large manufacturers have already sold out of their planned production. Farmers also had the cash available to repay financing commitments which had a positive impact on delinquencies and hence, the quality of AgriFinancial's loan, lease and credit card portfolios.

For the 104 day period ending December 31, 2007, AgriFinancial achieved both its revenue and net income objectives. Both *Agrifinance* and *AgriCard* 2007 sales volumes increased year over year. In addition, loan losses were below forecast and repossessed equipment inventory has been reduced significantly when compared to the previous year.

Looking forward into 2008, with strong commodity prices for cereal grains and high quality oil seeds, agricultural producers are facing some of the best opportunities for growth and profitability in decades. AgriFinancial's senior management plans to build on the strengths of the *Agrifinance* and *AgriCard* brands by introducing new features and services that add value for its customers, business partners, dealers and merchants.

AgriFinancial expects the demand for agricultural equipment to increase throughout 2008 and beyond. Farms are getting larger and equipment requirements are changing. Many manufacturers are indicating new equipment orders have exceeded production capacity. This type of demand has not been experienced since the early 1970s. The limited availability of new equipment is expected to increase demand for good quality used equipment which will have a positive impact on overall equipment values.

AgriFinancial plans to enhance its equipment leasing and financing offerings under the *Agrifinance* brand to meet the needs of the market. Producers (farmers) are demanding leasing and financing services that meet their cash flow requirements at competitive rates. They expect expertise and flexibility from financial service providers that understand their needs. *Agrifinance* has proven expertise by offering leading edge lease and financing products. In 2008, focus will be on improving speed of service and tailoring loans and leases to meet the unique needs of individual customers.

*AgriCard* began as a parts and service credit card for agricultural producers and this remains a core business. Since then, *AgriCard* has been expanding its services and merchant base to include crop inputs. In 2008, AgriFinancial plans to continue to grow the crop inputs financing segment of the business through *AgriCard* with enhanced services and new partnerships. AgriFinancial has the capacity and capability to meet the needs of business partners looking for a competitive financial service provider who understands the agricultural market. The Company believes that *AgriCard* has a strong market presence, competitive rates, efficient service delivery and unique features that agricultural producers demand.

The exit for this investment may take several forms, including a sale to a strategic buyer or potentially an initial public offering.

#### D) INVESTMENT IN BIRMINGHAM FOUNDATION SOLUTIONS

C.A. Bancorp invested in Birmingham Foundation Solutions (Birmingham) on November 30, 2007. The Company made its \$9.2 million investment alongside a \$0.8 million investment made by the Total Strategy Fund. C.A. Bancorp has a significant minority position in Birmingham and has representation on Birmingham's Board of Directors.

Birmingham is a leader in the specialized foundation industry; manufacturing customized pile driving equipment for sale or lease in 49 countries around the world, and providing specialized foundation construction services, employing Birmingham equipment, to clientele in the infrastructure, real estate, and energy sectors.

Specialty foundations form the underpinning in almost all large infrastructure developments such as bridges, ports, roadworks, liquid natural gas (LNG) plants, and other major construction developments such as high-rise buildings. Birmingham has built foundations and provided specialty foundation testing for projects around the globe including: the landmark Burj Al Arab in Dubai, Taipei 101 in Taipei, and in Canada: the Pickering Nuclear Plant, the Canaport LNG plant, the majority of bridges and overpasses at Toronto's Pearson International Airport, and the Sir Adam Beck hydroelectric mega-project in Niagara Falls. To customers, Birmingham is known by the names of its divisions and products: *Birmingham Construction*, *Birminghammer*, *Statnamic* and *Enercret*.

C.A. Bancorp's investment is in the form of convertible and straight preferred shares with an 8% coupon. The convertible preferred shares can be converted into Birmingham's common shares ranging between 33% to 45% (based on Birmingham's financial performance) of the outstanding Birmingham common shares on a fully diluted basis. Birmingham is using the proceeds to capitalize on a series of growth initiatives across the global infrastructure sector.

C.A. Bancorp views Birmingham as an attractive investment for the following reasons:

- Strong industry prospects – Specialty foundation work is a necessary component of any bridge foundation, LNG plant, wharf, nuclear power plant, condo development, or road project;
- World-class technology – Birmingham produces equipment and employs construction techniques that are on the cutting edge in specialty foundation work;
- Strong, established market presence – Birmingham has been in the specialty foundation industry for over 110 years. This experience combined with strong relationships, particularly within the Canadian construction market, allows Birmingham to maintain a steady exposure to the new projects being tendered for bids;
- Few competitors – Particularly in Canada, *Birmingham Construction* is considered to be the standard which others are measured against. On the manufacturing side, *Birminghammer* has been able to stay ahead of its competitors through constant innovation and new product developments; and,
- Capable management team – C.A. Bancorp views the management team as strong and capable of executing its business plan.

C.A. Bancorp has a favourable outlook on this investment, especially given the strong demand for the new-build and the renewal of infrastructure worldwide. Birmingham is entering 2008 with a significant backlog of orders on both the construction and manufacturing divisions and anticipates strong demand throughout the year. Since C.A. Bancorp made its investment, Birmingham has begun several new initiatives including the implementation of lean processes within its manufacturing facility, initial development of a separate equipment rental division, and the hiring of a new Chief Financial Officer.

The exit for this investment may take several forms, including a sale to a strategic buyer or a sale back to Birmingham's majority shareholder.

#### E) INVESTMENT IN KINGSWOOD APARTMENT COMPLEX (SUBSEQUENT TO YEAR-END)

In January 2008, C.A. Bancorp closed its investment in a newly formed limited partnership (Partnership) that acquired a 360-unit apartment complex in Kitchener, Ontario (Kingswood Property) for an aggregate purchase price of \$23 million, before closing costs. C.A. Bancorp holds an 80% interest in the Partnership and Centurion Apartment Properties Limited Partnership (Centurion L.P.) will act as both the general partner and a limited partner holding the remaining 20% interest.

C.A. Bancorp invested \$6.0 million, to acquire an 80% limited partnership interest in the Partnership, with the residual \$1.5 million equity interest invested by Centurion L.P. and a third party. The balance of the \$23 million purchase price was financed by the assumption of two existing mortgages on the Kingswood Property. These mortgages are non-recourse to C.A. Bancorp and have interest rates that are below current market rates.

The Kingswood Property is a freehold interest in eight garden-style apartment buildings on 16 acres of land, with an average of 45 units per building, located on Kingsway Drive in Kitchener, Ontario. The Kingswood Property is strategically located in the south end of Kitchener with excellent access to Highway 401, Highway 8, and the Conestoga Parkway. The buildings are comprised of one and two bedroom units and are over 96% leased. Management believes that the investment represents an acquisition of an income producing property with significant upside potential through property improvements and unit upgrades.

#### F) INVESTMENT IN WINDWARD TELECOM LIMITED (SUBSEQUENT TO YEAR-END)

In February 2008, C.A. Bancorp, through its wholly owned subsidiary, C.A. Bancorp Telecom Inc., closed a U.S.\$700 investment in Windward Telecom Limited (Windward) C.A. Bancorp pre-funded U.S.\$200 of this investment in November 2007 to cover certain equipment expenditures required by Windward. C.A. Bancorp has taken a significant minority position in Windward and has representation on Windward's Board of Directors.

C.A. Bancorp's investment is structured as U.S.\$200 in common shares representing a 10% interest in Windward which will yield an annual management fee of 6% and convertible, redeemable, retractable U.S.\$500 in preferred shares paying a 13% annual dividend, with the preferred shares convertible into 25% of Windward's common shares under certain conditions.

Windward is a low-cost wholesale provider of telecommunications services utilizing dedicated high capacity fiber optic cable, providing customers with high volume voice and data services to and from the Republic of Trinidad and Tobago, and North America. Windward's network includes leased dedicated capacity on the *Americas-1 South* fiber optic cable, as well as ownership of related hardware and software located in Florida and Trinidad. Windward interconnects with call originators and terminators such as Verizon, Sprint, Telus and Bell in North America and to those in the Republic of Trinidad and Tobago including the local Trinidad based landline and mobile telephone companies. It markets its services to telephone companies, independent internet service providers, and other companies with high bandwidth requirements and seeks to expand its services to industry verticals such as the Trinidadian oil and gas industry. To date, the pre-sales of Windward's capacity to major North American telecommunication companies are expected to allow it to generate immediate positive earnings.

C.A. Bancorp views this as an attractive investment for the following reasons:

- Highly scalable business model generating recurring revenues capable of serving new clients with limited additional investment;
- Low cost structure based on favourable fiber optic lease terms and minimal overhead, enabling Windward to operate at significantly lower cost than established carriers with large legacy networks and overheads;
- Relatively large market with limited competition selling at premium rates allows a small player like Windward to capture profitable market share without incurring material competitive responses;
- Stable government and regulatory entities who are encouraging such initiatives; and,
- Opportunity to provide telecom services to Trinidadian gas industry (12th largest producer in the world).

Under the Windward banner, in partnership with Windward's President, Douglas Cunningham, C.A. Bancorp intends to explore further investment opportunities in the Caribbean telecommunications market. C.A. Bancorp maintains a favourable outlook for this investment, especially given the significant development occurring within the Caribbean region which is driving the need for highly reliable telecommunication services.

The exit for this investment may take several forms, including a sale to a strategic buyer, an internal recapitalization, a sale back to the majority shareholder or potentially a public offering.

### G) INVESTMENT IN SALBRO BOTTLING GROUP (SUBSEQUENT TO YEAR-END)

In February 2008, C.A. Bancorp made a \$3.6 million growth capital investment alongside a \$0.4 million investment by the Total Strategy Fund in the Salbro Bottling Group (Salbro), a group of privately held companies based in Toronto, Ontario, which serves the packaging industry. Salbro intends to utilize the proceeds to capitalize on a series of opportunities through expansion of its in-house manufacturing and design capabilities as well as several other growth initiatives.

C.A. Bancorp's investment is structured as a secured debenture with a 12% per annum coupon, payable monthly in addition to nominal cost warrants providing it with a base 12.5% equity interest, with increases in this interest subject to Salbro's financial performance and contractual minimum rates of return.

Salbro is an established designer, manufacturer, and distributor of packaging components, specializing in glass and plastic bottles. Serving a broad set of sectors, Salbro products form part of the packaging for many household brand name products. The combination of their distribution activities with their manufacturing operations provides diversification to the business as well as substantial benefit to their customers. Salbro can offer a very broad range of products to their customers, while focusing their manufacturing efforts on those products with attractive margins.

Salbro has two manufacturing and warehouse facilities, one in Toronto, Ontario and the other in St. John's, Newfoundland. Between its two facilities, Salbro utilizes seven independent production lines to manufacture plastic bottles and containers using a blow molding process. Salbro has an in-house design capability to create custom containers or they can draw from an existing library of over 170 designs for use on their production lines.

C.A. Bancorp is excited at Salbro's growth prospects across all its initiatives, especially given the strength of the brands it currently serves, the breadth of custom products it can offer its customers, and its reputation for excellent customer service.

C.A. Bancorp views Salbro as an attractive investment for the following reasons:

- Transaction structure provides security with the ability to generate high contractual returns;
- Strong management team with long history in distribution;
- Salbro has strong and deep customer relationships with over 20 years of history, resulting in earnings visibility and pricing power; and,
- Ability to add customers without requiring material capital investment.

### H) INVESTMENT IN COMMERCIAL REAL ESTATE LOANS

The Company started a commercial real estate lending business in 2007 focused on smaller value and shorter-term loans and mortgages. C.A. Bancorp views this segment of the real estate lending market as presently underserved and highly fragmented presenting excellent opportunities to originate structured commercial mortgages and loans generating attractive

yields. The intent was to build up a portfolio of commercial mortgages and loans in anticipation of starting a fund targeted for the retail investor to gain exposure to the performance of these types of mortgages and loans (see "Investment in C.A. Bancorp Canadian Realty Finance Corporation").

As at December 31, 2007 the Company had nine real estate loans outstanding totaling \$8.0 million. These loans had a weighted average interest rate of 11.9% and an expected weighted average maturity of approximately 19 months. The loans are secured by commercial real estate.

Subsequent to year-end, the Company funded an additional three real estate loans totaling \$4.7 million in January 2008. The portfolio of 12 real estate loans totaling \$12.7 million was sold to a limited partnership managed by the Company on February 22, 2008 in conjunction with the closing of the initial public offering of C.A. Bancorp Canadian Realty Finance Corporation. The purchase price was the aggregate carrying value (including principal outstanding, less any unearned income plus any accrued interest) of the loans.

I) INVESTMENT IN C.A. BANCORP CANADIAN REALTY FINANCE CORPORATION (SUBSEQUENT TO YEAR-END)  
Upon closing of CRFC's initial public offering, (see "Overview of the Company – Asset Management"), C.A. Bancorp subscribed for 741,000 Class A shares of CRFC at \$10.00 per share for a total of \$7.4 million. The net proceeds of the issuance of Class A shares, after deducting expenses of the offering, equaled at least 11.1% of the gross proceeds of the Preferred Shares. C.A. Bancorp is the sole holder of Class A shares of CRFC. Unlike the Preferred Shares, the Class A shares do not trade on a public market and rank subordinate to the Preferred Shares.

The Company is the manager of CRFC and generates annual management fees and income from the performance of the CRFC.

#### J) PUBLICLY TRADED INVESTMENTS

The Company held publicly traded securities (Public Portfolio), excluding Charter REIT and the capital pool companies (CPCs), valued at approximately \$30.9 million on a fair value basis (December 31, 2006 – \$4.2 million) as of December 31, 2007. All of the investments in the Public Portfolio are listed for trading on either the TSX or TSXV.

The Company has made an accounting determination that its financial assets are "held for trading" and those assets are acquired for the purpose of trading or as part of a trading portfolio. These assets are measured at fair value on the balance sheet with unrealized gains or losses recognized in operations in the current period. "Long" or asset positions in publicly traded securities are valued at the last "bid" price at period end for the purposes of calculating fair value under GAAP.

Under this basis of accounting, the Company will recognize gains and losses from quarter to quarter regardless of whether such gains or losses are realized.

Under the transitional rules for applying the new financial instruments accounting standards, an adjustment to the carrying value of publicly traded investments was required on January 1, 2007. The impact of this adjustment was to increase the carrying value of the Company's investments at year end by \$94. This transitional adjustment was not recognized into income for 2007 but instead was taken into opening retained earnings (see "Critical Accounting Policies and Accounting Estimates").

#### PERFORMANCE OF THE PUBLIC PORTFOLIO

The Public Portfolio investments were made pursuant to three strategies:

- "toehold" investments of up to 5% of the shares or units of a small-cap corporation and income trust, in support of a C.A. Bancorp strategy to effect a material change in the direction of the entity, including a merger, going-private transaction or a material change in the entity's strategy necessitating a change in the board of directors;
- "event/catalyst" investments in small to mid-cap companies that C.A. Bancorp believed could be the target of a third party entity taking an activist approach to effect a material change in the direction of the entity; and,
- larger cap high yield investments that were perceived to be lower volatility investments that produced steady income.

The performance of the Public Portfolio, excluding distributions, was approximately -4.5%. The Public Portfolio has a distribution yield of over 8% which the Company recognizes into investment income over time which has an offsetting positive effect on the overall return from the Public Portfolio when there are losses on the market price. The Company believes there is no clear representative external benchmark to the Public Portfolio but, given the number of income trusts and smaller capitalization securities that are held in it, that the S&P/TSX Income Trust Index and S&P/TSX Small Cap Index are the closest proxies. For the year ended December 31, 2007, the two indices had returns of -2.7% and 0.9% respectively.

The Company recorded realized gains on the sale of public investments of \$1,022 for the year ended December 31, 2007 along with unrealized losses of \$3,259 for a net loss of \$2,237. The approximate size of the Company's Public Portfolio ranged from \$4 to \$38 million during the year. The overall weakness in the capital markets that began in August and continued through the end of the year affected the Public Portfolio with many of the smaller-cap less liquid names impacted in particular.

A number of the smaller cap income trust names the Company holds are also situations that the Company anticipated would be take-out candidates. The Company believes that the tightening of the credit markets has deflated some of the take-out

premiums that had gradually been built into some of these names. Notwithstanding this, the Company believes that many of the smaller-cap income trusts (including some of those in which it maintains a position) are being actively marketed as takeover opportunities by investment banks in Canada.

#### K) INVESTMENT IN CHARTER REIT

Charter REIT is focused on acquiring a portfolio of retail and mixed-use retail real estate, generally in the mid-market deal size range of \$10 to \$40 million, comprised of stable cash-flow and value added properties from both primary and secondary markets throughout Canada, with the principal goal of generating a reliable and growing yield for investors.

On September 14, 2006, the Company acquired 2,500,000 common shares at \$0.20 per common share of Charter, a capital pool company at the time. Charter was established as a real estate investment vehicle focused on acquiring a portfolio of retail and mixed-use retail real estate throughout Canada. After giving effect to the acquisition, C.A. Bancorp held 42% of Charter's outstanding common shares.

As at December 31, 2006, the Company accounted for its investment in Charter using the equity method.

On February 23, 2007, Charter completed its qualifying transaction consisting of (i) a private placement of 15,000,000 common shares at a price of \$0.20 per common share and (ii) the purchase of three free-standing commercial retail properties leased to Rona Ontario Inc. in Exeter, Seaforth, and Zurich, Ontario (collectively, the "Rona Properties") for \$2.1 million. C.A. Bancorp participated in this private placement acquiring an additional 9,500,000 common shares for an additional purchase price of \$1.9 million. At the conclusion of the private placement, C.A. Bancorp held 12,000,000 common shares of Charter representing 57% of Charter's outstanding common shares. At this point C.A. Bancorp began to consolidate Charter's financial statement accounts.

Charter purchased a shopping centre located in St. Laurent, Quebec (Méga Centre) on March 30, 2007 for \$36.7 million (before closing costs).

On May 10, 2007, Charter converted into a real estate investment trust (REIT), called Charter REIT. As of May 14, 2007, the units of Charter REIT began trading on the TSXV under the symbol CRH.UN. Under a plan of arrangement, every 10 common shares of Charter were exchanged for one unit of Charter REIT.

On June 21, 2007, Charter REIT completed another private placement issuing 741,000 units at \$4.05 each, of which the Company subscribed for 296,000 units for a total cost on the subscription of \$1.2 million. Subsequent to the private placement and as at June 30, 2007 the Company owned 52% of Charter REIT.

On August 9, 2007, Charter REIT completed a public offering of 13,375,000 units at \$3.45 each of which the Company subscribed for 4,347,826 units for a total cost of \$15 million. On September 5, 2007, Charter REIT closed its over-allotment option for an additional 1,370,912 units at \$3.45. Subsequent to the public offering and as at September 30, 2007 the Company owned 33% of the outstanding units of Charter REIT. The Company ceased consolidating the Charter REIT accounts for financial reporting purposes and again began to account for its investment in Charter REIT using the equity method.

On August 9, 2007, Charter REIT also announced the acquisition of Cornwall Square Shopping Centre, a 252,000 square foot two level enclosed mall, located in Cornwall, Ontario for \$46.1 million (before closing costs).

On November 30 2007, Charter REIT completed the acquisition of a shopping centre located at 160-180 Anjou Boulevard in Chateauguy (Montreal), Quebec for an aggregate purchase price of \$14.2 million before closing costs.

As at December 31, 2007, Charter REIT's last traded unit price was \$2.75 (the Company uses the closing bid price of \$2.70 to estimate fair value).

On January 31, 2008, Charter REIT completed the acquisition of Place Val Est in Sudbury, Ontario for an aggregate purchase price of \$14.7 million before closing costs.

The Company is pleased with Charter REIT's execution in 2007. Considering the challenges that many REITs faced in 2007, Charter REIT was successful in raising capital from the public markets and acquired a number of quality retail properties to build a portfolio of approximately \$114 million in real estate assets. C.A. Bancorp as manager of Charter REIT, through its subsidiary Realty Management, believes that Charter REIT has a viable business model and a platform on which to grow and further achieve its growth objectives. With conservative leverage on its balance sheet today, Charter REIT is well positioned to add additional properties and generate additional deal fees, management fees, and distribution cash-flow yield for the Company.

#### L) INVESTMENTS IN CAPITAL POOL COMPANIES

In the fourth quarter of 2006 the Company made investments in two CPCs; Global Alternative Investments Inc. (Global) and Universal Infrastructure Corp. (Universal), which are considered to be related entities to the Company by virtue of similar ownership. The Company currently accounts for these investments using the equity method which is a result of management's

assertion that the Company has significant influence over each of these investments. The equity method results in the Company accounting for its pro-rata share (based on its percentage ownership and period of ownership) of the CPCs' net income or loss, adjusted for any cash returns on investment.

The Company invested \$95 in each of Universal and Global as founders' capital (950,000 common shares were purchased at \$0.10 per common share). Universal and Global each raised \$300 in an initial public offering by issuing 1.5 million common shares at \$0.20 per share. As a result of these transactions, C.A. Bancorp held a 27% interest in the outstanding common shares of each of Universal and Global as at December 31, 2007. As of the date hereof, the only business carried on by Universal and Global, respectively, is the identification of a suitable qualifying transaction. It is anticipated that C.A. Bancorp will enter into management agreements with Universal and Global upon completion of their qualifying transactions.

The Company is actively looking at investment opportunities to utilize these CPCs.

#### IV. RESULTS OF OPERATIONS

The following is an analysis of the results of operations based on a Generally Accepted Accounting Principles (GAAP) basis of presentation.

##### A) BASIS OF PRESENTATION: GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The consolidated financial statements include the accounts of C.A. Bancorp and its wholly owned subsidiaries: CAB Ltd., Realty Finance, and Realty Management, as well as its 90.5% majority-ownership in C.A. Bancorp Financial Corp. ("Financial Corp.") and its investment in Charter REIT (from February 23rd, 2007 to August 9th, 2007).

On October 12, 2007 the Company closed an approximate \$90 million acquisition (the "Acquisition") of the businesses of *Agrifinance* and *AgriCard* through a newly created subsidiary, AgriFinancial Canada Corp. The equity investment was made by C.A. Bancorp and the Total Strategy Fund through Financial Corp. C.A. Bancorp and the Total Strategy Fund are the sole shareholders of Financial Corp., with C.A. Bancorp currently holding approximately 90.5% (\$9.5 million) and the Total Strategy Fund holding approximately 9.5% (\$1.0 million) of the issued and outstanding shares of Financial Corp. Financial Corp. owns and controls all of the issued and outstanding shares of AgriFinancial. The non-controlling interest related to the Total Strategy Fund equity contribution has been recorded in the Company's consolidated balance sheet at year-end.

All intercompany transactions and balances have been eliminated in these consolidated statements in accordance with GAAP.

##### B) RESULTS FROM OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

The Company's revenues and expenses increased significantly in 2007 on a year-over-year basis as the Company had limited operations in 2006. For the year ended December 31, 2007 the Company reported net income of \$17 (2006 – net loss of \$1,736). This represented net earnings of \$0.00 (2006 – net loss of \$0.08) per common share on a basic and fully diluted basis. Cash from operating activities was \$1,130 for the year ended December 31, 2007. However, before the effects of working capital adjustments cash from operating activities was \$2,314 (2006 – (\$899)) for the year ended December 31, 2007 (see the "Consolidated Statement of Cash Flows" in the financial statements).

##### C) REVENUES

*Interest and investment income of: \$6,221 (2006 - \$232)*

The Company earns interest income on its cash and cash equivalents (overnight term deposits). The Company receives investment distributions on its equity holdings in corporations, income trusts, partnerships and investment trusts as well as interest income on its real estate loans. The Company's yield increases as it continues to become fully invested.

The Company recognized \$2,128 in interest and investment income related to AgriFinancial.

*Revenue from Charter REIT's rental properties of: \$1,691 (2006 – nil)*

The Company recognized revenues from rental properties while it consolidated Charter REIT's results: the Rona Properties acquired on February 23, 2007 and the Méga Centre property acquired on March 30, 2007. The majority of Charter REIT's rental revenue was earned subsequent to the acquisition of the Méga Centre on March 30, 2007. As of August 9, 2007, the Company no longer consolidated Charter REIT's revenue and expenses which are now accounted for in accordance with the equity method of accounting.

*Asset management fees of: \$731 (2006 –\$196)*

The Company collects and recognizes asset management fees of approximately 1.1% (110 basis points) of the net asset value (NAV) of the Total Strategy Fund throughout the year. As at year end the Total Strategy Fund had a NAV of approximately \$55.3 million. The Company also earns asset management fees of 0.30% of Charter REIT's adjusted book value.

The Company recognized \$113 in asset management fees from Charter REIT for the year ended December 31, 2007 (2006 – nil).

*Other fees and commissions of: \$723 (2006 – nil)*

The Company may also earn deal fees or work fees as part of its direct investing strategy where the Company is buying an entire company or an asset or assets. A fee may be paid by a target company during an acquisition if the pending deal is terminated, (i.e. a break fee), or a fee may be paid by one party of a contract to another party in order to terminate or cancel legal obligations. During the year, C.A. Bancorp earned acquisition fees of 0.50% of the real property acquired by Charter REIT. The Company also supported an unsuccessful shotgun buy-sell arrangement in the first quarter which generated a fee and recognized work fees on the High Fidelity and Birmingham transactions during the year. The Company also recognized fees in its mortgage brokerage business which began in the third quarter.

#### D) NET RESULTS OF PUBLIC INVESTMENTS

*Realized gains on the sale of publicly traded investments of: \$1,022 (2006 – \$4)*

*Change in unrealized loss on publicly traded investments of: (\$3,259) (2006 – (\$439))*

In accordance with the Company's accounting policies an unrealized loss of \$3,259 (2006 – (\$439)) was recognized for the year-ended December 31, 2007 as the change in the unrealized gain (loss) (defined as the total fair value of its outstanding public investments less their total cost basis) from December 31, 2006.

The Company adopted new accounting standards consistent with Canadian Institute of Chartered Accountants (CICA) Handbook as of January 1, 2007 (see "Critical Accounting Policies and Accounting Estimates") which requires recognition in the calculation of net income for fair value adjustments if these relate to financial assets (or financial liabilities) that are designated as trading by the Company in accordance with the accounting standards.

*Gain on dilution of Charter REIT of: \$1,373 (2006 – nil)*

The Company recognized gains on dilution of its investment in Charter REIT as a result of Charter REIT issuing new units at a price that was higher than the net asset value of the underlying units. The Charter REIT issuances had the effect of being accretive to the Company's investment in Charter REIT.

*Equity participation in Charter REIT of: (\$418) (2006 – (\$11))*

The Company stopped consolidating the results of its investment in Charter REIT as of August 9, 2007 and began using the equity method of accounting which results in "one-line pick-up" of Charter REIT's results on the statement of operations. In simple terms the Company recognizes its proportionate share of Charter REIT's net income or net loss. As Charter REIT is a start-up REIT it is not uncommon for it to have accounting losses and thus, the Company recognizes its pro-rata portion.

#### E) EXPENSES

*General and administration expenses of: \$2,829 (2006 - \$825)*

General and administration expenses of \$2,829 consist of \$2,292 in expenses related to the Company and \$537 in expenses related to Charter REIT as follows:

The Company's general and administration expenses (excluding the impact of consolidating Charter REIT) total \$2,292 for the year ended December 31, 2007. Included in general and administrative expenses for the year ended December 31, 2007 are \$480 in administration fees paid to Sentry Select pursuant to an administration agreement between Sentry Select and C.A. Bancorp. In addition to the above, general and administrative expenses for the year ended December 31, 2007 include \$459 in salaries and benefits related to AgriFinancial, \$197 in sales and general administration related to AgriFinancial, \$168 in other corporate and marketing expenses, \$154 in travel expenses, \$147 in advertising, \$139 in consulting fees, \$138 in capital taxes, \$134 in directors' fees, \$86 in reports to shareholders, \$79 in materials and printing, \$58 in telephone, and \$53 in insurance.

Also included in general and administration expenses were those related expenses to the consolidation of Charter REIT totalling \$537 for the period from February 23, 2007 to August 9, 2007 and were composed of approximately \$181 in amortization of financing fees, \$115 in directors' fees, \$110 in consulting fees, \$44 in capital taxes, \$44 in provision for credit losses, \$39 in reports to shareholders, and \$4 in other corporate and marketing expenses.

*Interest expense of: \$1,783 (2006 – \$7)*

Of the \$1,783 in interest expense, \$908 related to mortgages and loans associated with the properties owned by Charter REIT for the period from February 23, 2007 to August 9, 2007 and \$842 related to AgriFinancial's credit facilities.

*Corporate and transaction costs of: \$1,335 (2006 - \$304)*

The Company incurred significant audit, legal, filing and due diligence charges during the year as it executed its business plan. The Company incurred legal fees in conjunction with its TSX listing application and information circular in preparation for the Company's annual and special meeting. In addition, the Company incurred legal and due diligence costs on a number of potential deals including one potential acquisition in the financial services sector, as well as a potential acquisition in the telecom industry. The costs are charged to the statement of operations when the Company no longer pursues these opportunities. Costs on deals which are executed may be reimbursed by the vendor or investee company. Management believes that such costs are typical of the business that the Company operates in. For the year ended December 31, 2007, the Company (excluding Charter REIT) incurred corporate transaction costs of \$405. These costs included \$208 in legal fees, \$158 in audit fees and \$39 in filing fees.

Also included in the consolidated figures are Charter REIT's corporate transaction costs for the year ended December 31, 2007 of \$930 which reflect costs incurred in connection with Charter's conversion to a REIT.

*Stock based compensation of: \$1,167 (2006 - \$375)*

Included in the Company's total expenses was a charge for stock-based compensation in the amount of \$1,119 for the year ended December 31, 2007 (2006 - \$375) relating to the fiscal 2006 and 2007 grants of employee and non-employee stock options. One third of the options granted vest immediately on grant with the remaining two-thirds vesting equally on the one-year and two-year anniversaries of the grant. The options are expensed in a manner consistent with their vesting schedules. Stock based compensation is a non-cash expense which is added back in determining cash flow from operations.

Also included in the consolidated results was Charter REIT's stock based compensation which amounted to \$48 for the period from February 23, 2007 to August 9, 2007.

*Management fees of: \$972 (2006 - \$74)*

The management fees of \$972 are paid by the Company to Sentry Select pursuant to a management agreement between Sentry Select and C.A. Bancorp. The Company pays 1.50% annually to Sentry Select based on the Company's average quarterly closing consolidated book value from the previous quarter (subject to certain adjustments in accordance with the Management Agreement). In return, Sentry Select provides management services to C.A. Bancorp in respect of the Company's merchant banking business and other investment activities.

*Depreciation and amortization of: \$826 (2006 - nil)*

Of the \$826 depreciation and amortization expense, \$760 related to properties owned by Charter REIT for the period from February 23, 2007 to August 9, 2007 and \$66 related to AgriFinancial's operations.

*Rental property operating costs (Charter REIT) of: \$487 (2006 - nil)*

The rental property operating costs relate to properties owned by Charter REIT. The majority of Charter REIT's rental operating costs were incurred subsequent to the acquisition of the Méga Centre on March 30, 2007.

*Investment management fees of: \$353 (2006 - \$107)*

Of the asset management fees that are earned by the Company on the Total Strategy Fund, 54.5% of the management fee (or 60 basis points of the 110 basis points) are paid to Sentry Select for its services as investment manager of the Total Strategy Fund. The Company retains the full amount of any performance fees earned.

**F) INCOME TAXES**

For the year ended December 31, 2007, the Company recognized a net tax recovery of \$650 which consists of a current tax provision of \$695 and an offsetting future tax recovery of \$1,345.

Management believes that sufficient future taxable income is likely to be generated given the Company's cost structure and revenue streams. The Company has recognized a future income tax recovery in the statement of operations and has established a corresponding future tax asset on its balance sheet that is consistent with management's view on the likely realization of tax loss carry forwards.

**G) NON-CONTROLLING INTERESTS**

Non-controlling interest is the portion of a majority-owned subsidiary's results (in this case Charter REIT and Financial Corp.) which does not belong to the parent (C.A. Bancorp). It is recognized to reduce the effects of reflecting all the revenues and expenses of a subsidiary. For the year ended December 31, 2007, the Company recognized a non-controlling interest credit of \$964 (2006 - nil).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### V. SUMMARY OF FOURTH QUARTER 2007 RESULTS

During the quarter ended December 31, 2007, the Company generated consolidated revenue of \$3,873 compared to \$306 in the fourth quarter 2006. The year-over-year growth can be attributed to an increase in interest income related to AgriFinancial, an increase in asset management fees due to Charter REIT, and an increase in deal fees from Charter REIT and private equity transactions completed in the quarter.

The Company had a net loss on investments of \$1,193 in the fourth quarter 2007 compared to a net loss of \$242 in the fourth quarter 2006. The loss can be primarily attributed to a realized loss on its public investments of \$419 and an unrealized loss on its public investments of \$769.

The Company recorded a net loss of \$365 for the three months ended December 31, 2007, or loss per share of \$0.01 on a basic and fully diluted basis, compared to a net loss of \$919 or loss per share of \$0.40 on a basic and fully diluted basis in the corresponding period of 2006.

### VI. SUMMARY OF QUARTERLY RESULTS

The following is a summary of the consolidated entity's results for the last eight quarterly periods (in thousands except per share amounts):

	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	25	25	72	306	921	2,088	2,484	3,873
Net results of investments	-	(34)	(159)	(242)	437	1,173	(1,623)	(1,193)
Expenses	(123)	(282)	(341)	(983)	(1,338)	(2,957)	(2,531)	(2,931)
Non-controlling interest	-	-	-	-	243	499	237	(15)
Net tax recovery (provision)	-	-	-	-	540	(139)	348	99
Net income (loss)	(98)	(291)	(428)	(919)	803	664	(1,085)	(365)
Weighted avg. # of shares								
Basic	919	1,142	1,191	2,306	14,163	14,493	28,957	28,808
Diluted	919	1,142	1,191	2,306	14,537	14,692	28,957	28,808
EPS – basic	(0.11)	(0.26)	(0.36)	(0.40)	0.06	0.05	(0.04)	(0.01)
EPS – diluted	(0.11)	(0.26)	(0.36)	(0.40)	0.06	0.05	(0.04)	(0.01)
Net book value	2,577	2,322	2,148	37,034	38,147	82,960	83,433	82,516
# shares outstanding	1,142	1,142	1,217	14,136	14,174	28,674	28,988	28,683
Net book value per share	2.26	2.03	1.76	2.62	2.69	2.89	2.88	2.88

### VII. FINANCIAL POSITION, LIQUIDITY, CAPITAL RESOURCES AND OFF-BALANCE SHEET ARRANGEMENTS

The Company reported cash and cash equivalents of \$797 as at December 31, 2007. After consolidating AgriFinancial, the Company had approximately \$3.3 million in cash and cash equivalents. The Company's cash equivalents include overnight term deposits with Royal Bank of Canada and Bank of Nova Scotia and do not include commercial paper holdings of any kind.

The Company believes it has sufficient capital to support its current pipeline of potential new investments. The Company has no long-term debt, capital lease obligations and no other long-term obligations at the parent level. The AgriFinancial transaction was funded with approximately \$78.5 million of debt maturing in 18 months from the date of the transaction which is held at the AgriFinancial level and is non-recourse to C.A. Bancorp Inc.

The Company has the following contractual obligations. All contractual obligations are related to AgriFinancial.

	Payments Due by Period			Total
	Less than 1 year	1-3 years	After 4 years	
Long-term Debt	0	66,536	0	<b>66,536</b>
Operating Leases	95	261	0	<b>356</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's investing activities may require significant amounts of capital beyond what it currently has. The Company anticipates that additional funds may be secured through additional public offerings (either equity or debt), as well as through private equity placements, and/or the exercise of stock options. Some of the Company's initiatives may involve the use of credit facilities, short-term borrowings or debt structures at the level of the target investment (similar to AgriFinancial).

Beyond its cash and cash equivalents, the Company has the ability to raise further funds by either selling some of its Public Portfolio or by using the margin facilities available to it by borrowing against the Public Portfolio.

The Company currently has no off-balance sheet arrangements.

### SHARE CAPITAL AND OPTIONS OUTSTANDING

As at December 31, 2007 a total of 28.68 million (December 31, 2006 – 14.14 million) common shares were outstanding with the Company reporting a net book value of \$82.5 million (December 31, 2006 – \$37.0 million). As at February 29, 2008 a total of 28.46 million common shares were outstanding.

The Company had incentive stock options to purchase common shares outstanding as at December 31, 2007. The table that follows summarizes those options. No stock options were "in the money" that is none had positive intrinsic value.

	<b>Number</b>	<b>Weighted Avg. Exercise Price</b>	<b>"In the money"</b>
Optioned shares outstanding	2.1 million	\$3.22	Nil
Vested	1.0 million	\$3.17	Nil

As at December 31, 2007 400,700 common shares were repurchased and cancelled through the NCIB at an average price of \$2.24 per common share including commission. Shareholders may obtain a copy of the Company's notice of intention to make a NCIB, without charge, by contacting the Company.

## VIII. CORPORATE OUTLOOK

The management team at C.A. Bancorp is optimistic about the Company's growth and operational plans for 2008. The Company believes it will be able to build on its achievements of 2007 and continue the momentum in 2008. C.A. Bancorp seeks to increase the capital available to invest, which it expects will lead to an increase in assets invested and under management and subsequently, to growth in the Company's revenues, earnings and share price.

The Company intends to continue to make private investments in both private and public companies.

The Canadian small-cap and mid-cap markets are buoyant with no shortage of good quality investment opportunities in our sectors of focus. Canadian pension funds and the larger Canadian private equity firms have shifted their focus to the large-cap Canadian market and into European and Asian markets as a result of the significant capital they need to deploy. This shift has left the Canadian small- and mid-cap markets underserved, providing C.A. Bancorp with opportunities to participate in less competitive situations. The management team sees tremendous opportunity to apply its disciplined approach to investing and achieve favourable pricing and terms in all of the Company's investments.

The current turbulence in the debt markets has not affected C.A. Bancorp's investment activities. Many of the investments in the small- and mid-cap segment of the market are growth capital opportunities which do not require debt financing. Buyout opportunities in this sector that do require debt financing are readily available directly from Tier I banks.

The Company practices an active investing style. As such, the Company regularly meets with the management teams in its portfolio of existing private investments. Each investment has specific growth objectives to execute and the Company works with its portfolio companies' management teams to ensure certain growth plans are being executed and that risks are mitigated to increase the likelihood that the investment increases in value throughout its life.

The Company plans to develop and market new alternative asset funds to both retail and institutional investors. In early 2008, the Company raised gross proceeds \$36 million in the CRFC Preferred Share offering in a very difficult market environment. Shareholder's capital dedicated to forming and sponsoring those funds is expected to earn substantial returns from a combination of general returns on invested capital, as well as management on total capital in the funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company will continue its marketing and investor relations efforts in 2008. Management believes there is embedded value in the Company today that is not reflected in the current share price. Management plans to increase its efforts to raise awareness and communicate the C.A. Bancorp growth story in order to expand its shareholder base and have the value of the Company recognized by the market.

C.A. Bancorp treats shareholders' capital as a scarce resource. The management team's interests are aligned with the shareholders' and will seek to allocate the Company's capital in the most prudent manner with the long-term objective of generating stable and growing cash flows while targeting long-term gross rates of return of 15% to 25% on all of the Company's investments.

## IX. TRANSACTIONS WITH RELATED PARTIES

### ADMINISTRATION AND MANAGEMENT AGREEMENTS

Pursuant to an amended and restated management agreement (the "Management Agreement"), Sentry Select manages the Company's alternative asset and merchant banking businesses, including searching for, evaluating and screening investment opportunities and conducting due diligence with respect to potential investments. For the provision of its services pursuant to the Management Agreement, the Company pays Sentry Select a quarterly fee (the "Management Fee") of 1/4 of 1.50% of the net asset value (i.e. the total net asset value less the Company's liabilities) calculated as at the close of business on the last business day of each calendar quarter. In addition to the Management Fee, Sentry Select is entitled to be paid a performance bonus (the "Performance Bonus") equal to 20% of the amount by which the annual net pre-tax profit of the Company (i.e. the non-consolidated net income of the Company before income taxes and such Performance Bonus) calculated as at December 31 in each year exceeds a threshold of an 8% per year return earned on the Company's net asset value (determined in accordance with the Management Agreement). The initial term of the Management Agreement commenced on July 1, 2006 and expires on December 31, 2011. The Management Agreement will renew automatically for successive five-year terms following the initial term, provided that there has been no breach or material default of the terms of the Management Agreement by Sentry Select, subject to termination on any expiry date upon not less than 180 days prior written notice from the Company or Sentry Select to the other. In the event that the Company terminates the Management Agreement, Sentry Select is entitled to receive from the Company an amount equal to five times 1.5% of the net asset value calculated as at the close of business on the last business day of the term of the Management Agreement and five times the Performance Bonus paid in respect of the calendar year immediately preceding the date of termination of the Management Agreement. Either party upon the occurrence of certain events may also terminate the Management Agreement.

Effective as of July 1, 2006 and pursuant to an amended and restated administration agreement (the "Administration Agreement"), Sentry Select has provided certain management and administrative services to the Company, including the provision of office space, equipment and all management and investment staff, and all accounting, clerical, secretarial, corporate and administrative services as has been necessary to perform its obligations. The monthly fee paid to Sentry Select for the provision of such services is \$40,000. The Administration Agreement will immediately terminate upon the termination for any reason of the Management Agreement.

Copies of the Administration Agreement and Management Agreement are available under the Company's SEDAR profile on [www.sedar.com](http://www.sedar.com).

## X. CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Beginning on January 1, 2007 the Company adopted the CICA Handbook Sections *3855 Financial Instruments* and *1530 Comprehensive Income*. These Sections are mandatory for publicly accountable entities whose annual periods begin on or after October 1, 2006.

These accounting standards establish guidance for reporting comprehensive income. Presentation of comprehensive income and its components in a separate financial statement is required. The statement of comprehensive income includes net income plus other comprehensive income ("OCI"). Amounts recognized in OCI eventually must be reclassified to the income statement (in accordance with other CICA Handbook Sections). These reclassification adjustments, including the income tax expense or benefit, would normally be disclosed separately.

An example of an item that may be included in OCI for the Company would be changes in the fair value of available-for-sale financial assets (discussed below).

OCI will either be presented immediately below net income on the income statement; in a separate statement that begins with net income; or in a statement of changes in equity.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The new financial instruments framework, which includes the aforementioned standards, requires all financial assets and financial liabilities to be classified by characteristic and/or management intent. The classification of financial assets and liabilities determines how they are accounted for on an ongoing basis. All financial assets are classified in one of four categories: (i) held for trading; (ii) held to maturity; (iii) loans and receivables; or (iv) available for sale.

"Held-for-trading" financial assets are those acquired for the purpose of trading or as part of a trading portfolio. These assets will be measured at fair value on the balance sheet with gains or losses recognized in net income in the current period.

"Held-to-maturity" financial assets are those with fixed payments and maturity that the Company has the intent and ability to hold to maturity.

"Loans and receivables" are financial assets, which are not debt securities, resulting from a delivery of assets in exchange for a promise to pay. Both "held to maturity" and "loans and receivables" will be carried at amortized cost on the balance sheet.

"Available-for-sale" financial assets are those that are not classified as "held for trading", "held to maturity" or "loans and receivables". Such financial assets are recognized on the balance sheet at fair value with unrealized gains or losses recognized in other comprehensive income until the assets are disposed or until impairment occurs in which case recognition into net income occurs.

These new financial reporting standards will directly impact the Company's carrying of portfolio investments as many of the Company's current holdings will be valued at fair value on the balance sheet with the offset to either net income or other comprehensive income. This is a departure from the Company's policy up until December 31, 2006 where unrealized losses were recognized in the current period whereas gains were only recognized when realized.

Marketable securities that are deemed to be "trading" would be carried at fair value with gains or losses (both realized and unrealized) to be recognized in the calculation of net income for the period in question. The Company's recognition of securities as "held for trading" is expected to make net income more volatile going forward.

## XI. FACTORS THAT MAY AFFECT FUTURE RESULTS

### COMPANY FACTORS

Future financial performance will be influenced by the Company's ability to raise additional funds and the successful evaluation and acquisition of potential businesses as well as the Company's ability to build and successfully manage its assets under management.

### NON-COMPANY FACTORS

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

## XII. RISK MANAGEMENT

The Company is looking for opportunities as outlined in "Corporate Outlook" above. The merchant banking business is affected by a number of economic factors, including changing economic environments, capital markets and interest rates.

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

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

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

### INTEREST RATE RISK

For general risk factors affecting the Company see the section entitled "Risk Factors" included on pages 19 to 24 of the Annual Information Form dated as at May 24, 2007 filed under the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### XIII. INTERNAL CONTROLS OVER FINANCIAL REPORTING

As of December 31, 2007, the Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the design of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109. They have concluded that the disclosure controls and procedures were appropriately designed to provide reasonable assurance that material information relating to the Company and its consolidated subsidiary entities for the year ended December 31, 2007 is appropriately recorded, processed, summarized and reported and communicated to management as appropriate to allow for timely decisions regarding required disclosure. In addition, the Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the design of the Company's internal controls over financial reporting. The internal controls were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. They have concluded that the design of the internal controls over financial reporting were adequate and effective to provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. There have been no changes in the Company's internal controls during the year that have materially affected or would be reasonably likely to materially affect the Company's internal control over financial reporting.

### XIV. CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Additional information relating to the Company, including the Company's annual information form, is on SEDAR at [www.sedar.com](http://www.sedar.com).

**To the Shareholders of C.A. Bancorp Inc.**

We have audited the consolidated balance sheets of C.A. Bancorp Inc. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive income (loss), deficit and accumulated other comprehensive income and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Deloitte & Touche LLP"*

Chartered Accountants  
Toronto, Ontario  
March 7, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies which management believes are appropriate for the Company are described in Note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee of three non-management independent Directors is appointed by the Board.

The Audit Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

Deloitte and Touche LLP, the Company's external auditors, who are appointed by the common shareholders, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out above.

*"John Driscoll"*

JOHN F. DRISCOLL  
Chief Executive Officer and Chairman

*"Paolo De Luca"*

PAOLO DE LUCA  
Chief Financial Officer

## CONSOLIDATED BALANCE SHEETS

(thousands of Canadian dollars)

	as at December 31	2007	2006
<b>ASSETS</b>			
Cash and cash equivalents (Note 4)		<b>\$ 3,337</b>	\$32,905
Accounts receivable		<b>2,557</b>	215
Loans and leases receivable (Note 5)		<b>82,840</b>	-
Publicly traded investments (Note 6)		<b>30,881</b>	4,137
Investments in capital pool companies (Note 7)		<b>151</b>	164
Investment in Charter REIT (Note 8)		<b>17,421</b>	489
Investments in private entities (Note 9)		<b>12,697</b>	-
Future income tax (Note 22)		<b>1,345</b>	-
Intangible assets (Notes 3 and 10)		<b>1,165</b>	-
Deferred costs, prepaid expenses and other assets (Note 11)		<b>718</b>	105
Goodwill (Notes 3 and 12)		<b>716</b>	-
Capital assets (Note 13)		<b>520</b>	-
		<b>\$154,348</b>	\$38,015
<b>LIABILITIES</b>			
Credit facilities (Note 14)		<b>\$ 67,435</b>	\$ -
Accounts payable and accrued liabilities		<b>3,382</b>	842
Due to broker		<b>-</b>	140
		<b>70,817</b>	982
<b>NON-CONTROLLING INTEREST (Note 3)</b>			
		<b>1,015</b>	-
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 18)		<b>82,603</b>	38,592
Warrants (Note 18)		<b>-</b>	254
Contributed surplus (Note 18)		<b>1,990</b>	375
Deficit		<b>(2,077)</b>	(2,188)
		<b>82,516</b>	37,033
		<b>\$154,348</b>	\$38,015

Approved on behalf of the Board of Directors

"John Driscoll"

"Richard Zarzeczny"

JOHN F. DRISCOLL, Director

RICHARD J. ZARZECZNY, Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(thousands of Canadian dollars except per share amounts)

	for the years ended December 31	2007	2006
<b>REVENUE</b>			
Interest and investment income		<b>\$6,221</b>	\$ 232
Revenues from rental properties (Note 8)		<b>1,691</b>	-
Asset management fees (Note 15)		<b>731</b>	196
Other fees and commissions		<b>723</b>	-
		<b>9,366</b>	428
<b>NET RESULTS OF INVESTMENTS</b>			
Realized gain on sale of publicly traded investments		<b>1,022</b>	4
Change in unrealized loss on publicly traded investments (Note 6)		<b>(3,259)</b>	(439)
Change in unrealized gain on private investments, held for trading (Note 9)		<b>90</b>	-
Equity participation in capital pool companies (Note 7)		<b>(13)</b>	(26)
Gain on dilution of Charter REIT (Note 8)		<b>1,373</b>	-
Equity participation in Charter REIT (Note 8)		<b>(418)</b>	(11)
		<b>(1,205)</b>	(472)
<b>EXPENSES</b>			
General and administration (Notes 8 and 16)		<b>2,829</b>	825
Interest expense (Note 8)		<b>1,783</b>	7
Corporate and transaction costs (Note 8)		<b>1,335</b>	304
Stock based compensation (Notes 8 and 19)		<b>1,167</b>	375
Management fees (Note 15)		<b>972</b>	74
Depreciation and amortization (Notes 8, 10 and 13)		<b>826</b>	-
Rental property operating costs (Note 8)		<b>487</b>	-
Investment management fee (Note 16)		<b>353</b>	107
Provision for credit losses		<b>6</b>	-
		<b>9,758</b>	1,692
<b>NET LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS</b>		<b>(1,597)</b>	(1,736)
<b>(RECOVERY) PROVISION FOR INCOME TAXES (Note 22)</b>			
Current tax provision		<b>695</b>	-
Future tax recovery		<b>(1,345)</b>	-
		<b>(650)</b>	-
<b>NET LOSS BEFORE NON-CONTROLLING INTERESTS</b>		<b>(947)</b>	(1,736)
<b>NON-CONTROLLING INTERESTS</b>		<b>(964)</b>	-
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>		<b>\$ 17</b>	\$(1,736)
<b>NET EARNINGS (LOSS) PER SHARE (Post share consolidation - see Note 1)</b>			
Basic		<b>\$0.00</b>	\$ (0.08)
Diluted		<b>\$0.00</b>	\$ (0.08)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>			
<b>(Post share consolidation - see Note 1)</b>			
Basic		<b>21,485,610</b>	23,054,785
Diluted		<b>21,531,937</b>	23,054,785

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

CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER  
COMPREHENSIVE INCOME

(thousands of Canadian dollars except per share amounts)

	<b>Deficit</b>	<b>Accumulated Other Comprehensive Income</b>
Balance, December 31, 2005	\$(89)	\$ -
Net loss	(1,736)	-
Issue costs of Qualifying Transaction (Note 1)	(363)	-
Balance, December 31, 2006	<b>(2,188)</b>	-
Adjustment as a result of change in accounting policy on publicly traded investments held for trading (Notes 2 and 6)	<b>94</b>	-
Net income	<b>17</b>	-
Balance, December 31, 2007	<b>\$(2,077)</b>	<b>\$ -</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

	for the years ended December 31	2007	2006
<b>OPERATING ACTIVITIES</b>			
Net income (loss)		\$ 17	\$(1,736)
Adjusted for non-cash items:			
Future tax recovery		(1,345)	-
Change in unrealized loss on publicly traded investments		3,259	439
Non-controlling interests		(964)	-
Stock based compensation		1,167	375
Non-cash gain on dilution of Charter REIT		(1,373)	-
Realized gain on publicly traded investments		(1,022)	(4)
Equity participation in capital pool companies		13	26
Equity participation in Charter REIT		418	11
Depreciation and amortization		826	-
Other Charter REIT related items		1,538	-
High Fidelity HDTV non-cash interest income		(136)	-
Change in unrealized gain on investments in private entities		(90)	-
AgriFinancial provision for credit losses		6	-
		<b>2,314</b>	<b>(889)</b>
Changes in non-cash operating working capital:			
Increase in current liabilities, net of AgriFinancial acquisition		1,221	258
Increase in receivables, net of AgriFinancial acquisition		(2,336)	(210)
(Increase) decrease in deferred costs, prepaid expenses and other assets net of AgriFinancial acquisition		(69)	98
Net cash provided by (used in) operating activities		<b>1,130</b>	<b>(743)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of net assets from CCAFS (Note 3)		(88,301)	-
AgriFinancial loans and leases receivable, net of repayments		11,696	-
AgriFinancial purchase of capital assets		(53)	-
Commercial real estate loans granted		(9,027)	-
Commercial real estate loans repaid		1,000	-
Purchase of publicly traded investments		(44,645)	(3,762)
Sale proceeds of publicly traded investments		15,758	272
Investments in capital pool companies		-	(190)
Investments in private entities (Note 9)		(12,471)	-
Bridge financing provided to Charter REIT		(4,590)	-
Bridge financing repaid by Charter REIT		4,590	-
Investments in Charter REIT		(18,099)	(500)
Distributions received from Charter REIT		756	-
Other		-	27
Net cash used in investing activities		<b>(143,386)</b>	<b>(4,153)</b>
<b>FINANCING ACTIVITIES</b>			
Non-controlling interest in AgriFinancial		1,000	-
Credit facilities drawn on acquisition of assets from CCAFS (Note 3)		78,337	-
Credit facilities repaid		(10,902)	-
Common shares issued (Note 18)		49,203	38,997
Issue costs paid (Note 18)		(4,185)	(3,315)
Warrants exercised		133	-
Common shares repurchased under normal course issuer bid (Note 18)		(898)	-
Cash acquired on Qualifying Transaction (Note 1)		-	2,042
Net cash provided by financing activities		<b>112,688</b>	<b>37,724</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(29,568)</b>	<b>32,828</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		<b>32,905</b>	<b>77</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		<b>\$3,337</b>	<b>\$32,905</b>
<b>REPRESENTED BY:</b>			
Cash		\$3,277	\$1,639
Cash equivalents (Note 4)		60	31,266
		<b>\$3,337</b>	<b>\$32,905</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Income taxes paid		\$ -	\$ -
Interest paid		\$1,778	\$ 7

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007 and 2006

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

### 1. ORGANIZATION

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

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

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

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

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

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

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

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

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

#### A) PRINCIPLES OF CONSOLIDATION

The Company's financial statements as at December 31, 2007 include the accounts of its subsidiaries (with ownership percentages in parentheses):

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

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

The Company's consolidated financial statements as at December 31, 2007 also include revenue and expense accounts of its majority owned subsidiary Charter Real Estate Investment Trust ("Charter REIT") (Note 8) for the period of February 23, 2007 to August 9, 2007, the period during which the Company had a controlling interest in Charter REIT.

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

#### B) CHANGES IN ACCOUNTING POLICY – FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME

On January 1, 2007 the Company adopted the following new accounting standards of the Canadian Institute of Chartered Accountants (the "CICA"): Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – 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

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

financial assets are required to be carried at fair value in the consolidated balance sheets, except for loans, receivables and held-to-maturity investments which are carried at amortized cost using the effective interest rate method and except for equity instruments whose fair value cannot be reliably measured. All financial liabilities must be classified as either held-for-trading or other financial liabilities. Financial liabilities that are held-for-trading are required to be carried at fair value, whereas all other financial liabilities are carried at amortized cost using the effective interest rate method. Subsequent measurement and changes in fair value of financial instruments will depend on their initial classification as follows: held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value (when fair value is reliably measured) recorded in other comprehensive income until the instrument is derecognized or impaired. In cases where fair value is not reliably measured the carrying value will continue to be used subject to impairment tests. Comprehensive income consists of net income and other comprehensive income. Major components of other comprehensive income may include unrealized gains and losses on financial assets classified as available-for-sale and changes in fair value of the effective portion of cash flow hedging instruments. The adoption of these new standards has been applied retroactively with no restatement of prior years. The Company's opening deficit, as of January 1, 2007, has been adjusted for the impact of adopting these standards. For the year ended December 31, 2007, comprehensive income is the same as net income.

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

(i) Loans, leases and other receivables

The carrying value of loans receivable includes principal and related finance costs. The terms of the loans generally extend up to five years. Finance charges are taken into income using the effective interest method over the terms of the loans. The investment in leases for purposes of income recognition is composed of net minimum lease payments less unearned finance income. Finance income related to the investment in leases is recognized over the term of the lease using the effective interest method. The carrying value of credit card loans includes principal and related finance costs. Finance charges are calculated on outstanding balances and taken into income in the period they are earned. Foreclosed assets are held for sale and valued at the outstanding balance of the loan or lease at the date of foreclosure adjusted for costs incurred subsequent to foreclosure or repossession and the estimated net realizable value of the property.

The Company maintains allowances for impaired loans that reduce the carrying value of loans and leases receivable to their estimated realizable amounts. Estimated realizable amounts for individual loans and leases are determined with reference to the present value of future cash flows inherent in a loan or lease and to the fair value of any security underlying the loans or leases.

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

Management has established criteria to be used in the determination of whether an individual loan or lease balance is to be considered as impaired. Such criteria have been established for the two primary components of the Company's portfolio of loans and leases receivable as follows:

- i) Loans and leases are made to borrowers primarily for the purpose of acquiring agricultural implements and industrial equipment. Where a customer's credit worthiness does not meet certain criteria set by management, these loans and leases are made on a full or shared recourse basis to the implement dealer provided management believes the dealer is currently in a sound financial position and a Dealer Retail Finance Agreement with AgriFinancial is in effect.

Further, it is AgriFinancial's practice to only extend loans on equipment with the net advance being based on an assessment of the equipment's value in the marketplace. For new equipment, the net advance should not exceed the equipment's wholesale value (dealer's invoice) while for used equipment, the net advance should not exceed 75% of its market value based on industry guide values or average listed prices for units of similar make, model and age.

Accordingly, a loan or lease is classified as impaired when there is reasonable expectation of a loss or an account is 180 days in arrears.

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

ii) Credit card loans are loans that are extended through AgriFinancial's *AgriCard* credit card, which is accepted only at approved agricultural equipment dealers. *AgriCard* customers use the credit card primarily for equipment parts and service. An individual credit card loan is considered impaired when one of several criteria established by management related to non-payment is met.

(ii) Publicly traded investments

Publicly traded investments are classified as held-for-trading.

Publicly traded investments are carried at fair value as at December 31, 2007. The closing bid prices are used in determining the fair value of investments that are publicly traded.

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

(iii) Private investments

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

Equity investments are classified as held-for-trading or available-for-sale depending on whether fair values are reliably measurable. Where fair values are reliably measurable equity investments will be classified as held-for-trading and initially valued at fair value. Subsequently, carrying values will be adjusted to fair value. Where fair values are not reliably measurable equity investments will be classified as available-for-sale and initially valued at estimated fair value and thereafter carried at cost.

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

(iv) Accounts payable and accrued liabilities

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

C) REVENUE RECOGNITION

(i) Interest and investment income

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

(ii) Loan origination fees

Loan origination fees are considered to be adjustments to loan yield and are recognized over the expected life of the loan using the effective interest method.

(iii) Asset management and performance fees

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

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

(iv) Other commission and fees

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

Mortgage broker commissions are recognized when management is assured of their realization. Any commissions paid to employees as a result of commissions generated for the Company are included in general and administration expense.

D) DEFERRED COSTS

Deferred costs include expenses related to start-up private equity investments and funds. These costs are recovered from the investees or funds upon closing or, in the case where the Company believes they are no longer recoverable, expensed.

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

E) CAPITAL ASSETS

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

Furniture, equipment and terminals	-	3 to 5 years
Leasehold improvements	-	term of lease
Computer equipment, software and tools	-	3 to 10 years
Vehicles	-	5 years

Impairment is tested on an annual basis.

F) GOODWILL

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

G) INTANGIBLE ASSETS

Intangible assets with an indefinite life are accounted for at cost and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of earnings in an amount equal to the excess.

Other intangible assets are accounted for at cost. Amortization is based on their estimated useful life using the straight-line method and the following periods:

Top dealer relationships	-	5 years
Customer lists	-	5 years

H) 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.

I) 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.

J) INCENTIVE STOCK OPTIONS

The Company has an incentive stock option plan as described in Note 19. 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.

K) 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.

L) INCOME (LOSS) PER SHARE

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

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

M) 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, impairment of assets, loan provisions, useful life for amortization, calculation of the fair value of stock options and the components of the investments in private entities. Actual results could differ from these estimates.

N) CHARTER REIT RELATED ACCOUNTING POLICIES (DURING CONSOLIDATION PERIOD)

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

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

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

- i. Land  
Land was recorded at its estimated fair value.
- ii. Buildings  
Buildings were recorded at either depreciated replacement cost based on estimates of prevailing construction costs for buildings of a similar class and age or a "dark value" appraisal, which is an income based valuation approach and gives the hypothetical value of the building as if the property were completely vacant at the date of acquisition.
- iii. Loan and commitment fees  
Loan and commitment fees were deferred and were amortized into income using the effective interest method.

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

O) FUTURE ACCOUNTING CHANGES

(i) Capital Disclosures and Financial Instruments – Disclosures and Presentation

In December 2006, the CICA issued Section 3862, Financial Instruments - Disclosures; Section 3863, Financial Instruments - Presentation; and Section 1535, Capital Disclosures. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2008. Section 3862 on financial instruments disclosures, requires the disclosure of information about: a) the significance of financial instruments for the entity's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements. (The Company does not expect that the adoption of these new Sections will have a material impact on its consolidated financial statements.)

(ii) Goodwill and Intangibles

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section 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. It establishes 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.

The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. (The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. ACQUISITION OF AGRIFINANCIAL CANADA

On October 12, 2007, the Company acquired the loans, leases and credit card loans of *Agrifinance* and *AgriCard* including certain other assets and liabilities from Canadian Cooperative Agricultural Financial Services (CCAFS) for total consideration of \$88,301 (the Acquisition). The Acquisition was completed through newly created corporations, AgriFinancial Canada Corp. and AgriFinancial Leasing Inc. which is a wholly-owned subsidiary of AgriFinancial Canada Corp., which are wholly-owned subsidiaries of C.A. Bancorp Financial Corp.

The Company invested \$9,500 of equity in C.A. Bancorp Financial Corp. and the Sentry Select Total Strategy Fund invested \$1,000. The results of the businesses are included in the consolidated financial statements from the date of the Acquisition. The consideration paid consisted of the following:

Cash drawn under the Credit Agreement (Note 14)	\$78,337
Cash	9,568
Acquisition costs	396
<b>Total consideration</b>	<b>\$88,301</b>

The Acquisition was accounted for using the purchase method as follows:

Fair value of assets acquired:

Loans, leases and credit card loans receivable	\$86,514
Equipment held for resale	534
Other assets	515
Intangible assets	1,200
	<b>88,763</b>
Less fair value of liabilities assumed:	
Accounts payable and accrued expenses	778
Holdback payable at a later date	400
Fair value of net identifiable assets acquired	<b>87,585</b>
Add other consideration:	
Goodwill	716
Total consideration paid	<b>88,301</b>
Non-controlling interest	<b>(1,000)</b>
<b>Total consideration paid, net of non-controlling interest</b>	<b>\$87,301</b>

Of the \$1,200 of intangible assets, \$500 was assigned to trademarks, \$400 was assigned to top dealer program/relationships and \$300 was assigned to customer lists.

Trademarks have indefinite lives and are not subject to amortization. Other intangible assets are amortized over their estimated useful lives. Goodwill is not subject to amortization and \$29 is deductible for tax purposes. Holdbacks are payable in two amounts, one-half of the holdback amount at six months after the acquisition date and one-half at one year after the acquisition date.

These holdbacks are subject to reduction for any claims and liabilities arising after the time of closing that pertain to events prior to the time of closing, and that were not identified and assumed by AgriFinancial at the time of closing. At December 31, 2007, holdbacks are included in other liabilities.

### 4. CASH AND CASH EQUIVALENTS

As at December 31, 2007 the Company held \$3,337 in cash and cash equivalents consisting of cash of \$3,277 and cash equivalents of a Government of Canada Treasury Bill, yielding 3.45% and maturing on January 10, 2008 in the amount of \$60.

The Company held no commercial paper as at December 31, 2007.

5. LOANS AND LEASES RECEIVABLE

A) COMPOSITION OF LOANS AND LEASES RECEIVABLE

	<b>2007</b>
Loans and leases are comprised of the following:	
Commercial real estate loans	\$8,027
AgriFinancial loans	23,890
AgriFinancial leases	24,506
AgriFinancial credit card loans	28,219
	84,642
Less: allowance for impaired loans	1,802
	<b>\$82,840</b>

AgriFinancial loans and leases are secured by specific equipment. AgriFinancial credit card loans are unsecured.

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 \$992 and related allowance of \$613.

Management has estimated the fair value of 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 year-end Canadian government (risk-free) rates and adding a risk premium. Management estimates that the fair value of the AgriFinancial loans and leases receivable at the balance sheet date was \$77 million. The comparable carrying value of these assets, calculated by deducting unearned finance income from the loans and leases receivable balance, is \$75 million. Management estimates that the fair value of the commercial real estate loans receivable approximate their carrying values.

B) ALLOWANCE FOR IMPAIRED LOANS

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

	<b>2007</b>			
	Total Impaired Loans	Specific Allowances	Non-specific Allowances	<b>Total Allowances</b>
Commercial real estate loans	\$ -	\$ -	\$ -	\$ -
AgriFinancial loans	804	580	261	<b>841</b>
AgriFinancial leases	187	33	268	<b>301</b>
AgriFinancial credit card loans	-	-	660	<b>660</b>
	\$ 991	\$ 613	\$1,189	<b>\$1,802</b>

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

	<b>2007</b>		
	AgriFinancial Loans and Leases	AgriFinancial Credit Card	<b>Total</b>
Allowance, beginning of year	\$ -	\$ -	\$ -
Assumed on purchase of AgriFinancial	1,153	751	<b>1,904</b>
Provision	42	(36)	<b>6</b>
Write-offs during the year	(57)	(80)	<b>(137)</b>
Recoveries	4	25	<b>29</b>
Allowance, end of year	\$1,142	\$660	<b>\$1,802</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### C) TERMS OF LOANS AND LEASES RECEIVABLE

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

	2007			Total
	Commercial Real Estate Loans	AgriFinancial Loans	AgriFinancial Leases	
Less than 7.50%	\$ -	\$ 6,918	\$ 5,826	<b>\$12,744</b>
7.51% to 10.00%	600	16,357	18,542	<b>35,499</b>
10.01% to 12.50%	4,517	457	103	<b>5,077</b>
More than 12.50%	2,910	158	35	<b>3,103</b>
	<b>\$8,027</b>	<b>\$23,890</b>	<b>\$24,506</b>	<b>\$56,423</b>

Loans outstanding as of December 31, 2007 have maturities as follows:

	Commercial Real Estate Loans	Average Interest Rate	Agri-Financial Loans	Average Interest Rate	Agri-Financial Leases	Average Interest Rate	Total	Average Interest Rate
2008	\$1,900	10.7%	\$ 2,301	8.5%	\$ 2,420	8.3%	<b>\$ 6,621</b>	<b>9.1%</b>
2009	4,567	12.1%	4,004	8.0%	6,507	8.1%	<b>15,078</b>	<b>9.3%</b>
2010	1,560	12.7%	6,340	8.0%	7,686	8.5%	<b>15,586</b>	<b>8.7%</b>
2011	-	-	3,924	8.7%	3,617	8.9%	<b>7,541</b>	<b>8.8%</b>
2012	-	-	7,078	8.1%	4,276	8.9%	<b>11,354</b>	<b>8.4%</b>
2013	-	-	243	8.0%	-	-	<b>243</b>	<b>8.0%</b>
Total	<b>\$8,027</b>	<b>11.9%</b>	<b>\$23,890</b>	<b>8.2%</b>	<b>\$24,506</b>	<b>8.5%</b>	<b>\$56,423</b>	<b>8.9%</b>

The above table excludes AgriFinancial credit card loans of \$28,219.

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 in the three prairie provinces of Canada.

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

### 6. PUBLICLY TRADED INVESTMENTS

In accordance with the Company's accounting policies a fair value (change in unrealized loss) adjustment of (\$3,259) was charged to income for the year ended December 31, 2007 (2006 - (\$439)) bringing the total balance sheet adjustment to (\$3,604) at December 31, 2007 (2006 (\$439)). As at year-end, the Company had 47 (2006 - 20) publicly traded investments in its portfolio.

Industry Grouping	2007			2006		
	Cost	Fair Value	Unrealized Loss	Cost	Carrying Value	Unrealized Loss
Industrials	<b>\$14,307</b>	<b>\$12,874</b>	<b>\$(1,433)</b>	\$1,457	\$1,457	\$ -
Diversified and Other	<b>8,430</b>	<b>8,014</b>	<b>(416)</b>	810	802	(8)
Financial Services	<b>6,862</b>	<b>5,567</b>	<b>(1,295)</b>	873	808	(65)
Infrastructure	<b>2,639</b>	<b>2,518</b>	<b>(121)</b>	133	133	-
Energy and Commodities	<b>2,247</b>	<b>1,908</b>	<b>(339)</b>	1,303	937	(366)
Total	<b>\$34,485</b>	<b>\$30,881</b>	<b>\$(3,604)</b>	4,576	4,137	(439)
Fair value adjustment credited to opening retained earnings				-	94	94
Total carrying value adjusted to fair value				\$4,576	\$4,231	\$(345)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. PUBLICLY TRADED INVESTMENTS (continued)

The manager of an investment trust investment with a carrying value of \$143 (December 31, 2006 - \$197) is controlled by the CEO/Chairman of the Company and the investment advisor of an investment trust investment with a carrying value of \$217 (December 31, 2006 - \$226) is controlled by the CEO and Chairman of the Company.

The CEO/Chairman of the Company is the Chairman of the general partner that manages an equity investment with a carrying value of \$796 (December 31, 2006 - \$134).

### 7. CORPORATE INVESTMENTS IN CAPITAL POOL COMPANIES

The Company, along with its CEO/Chairman as well as two of its other board members founded two capital pool companies ("CPCs"): Universal Infrastructure Corp. ("Universal") and Global Alternative Investments Inc. ("Global") on August 2, 2006. Each CPC was seeded with \$200 in gross proceeds (two million shares at \$0.10). Universal and Global separately completed an initial public offering on December 5, 2006 raising \$300 in gross proceeds by issuing 1.5 million shares at \$0.20. Subsequent to the offerings and as at December 31, 2007 the Company owns 27.1% of each CPC. On January 10, 2007 Universal and Global began trading on the TSX Venture under the symbols UIC.P and GLI.P 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 December 31, 2007 and 2006 for accounting purposes.

In accordance with the equity method of accounting for investments carrying value adjustments of \$7 (Universal) and \$6 (Global) were taken against income during the year (2006 - nil) based on the Company's percentage ownership.

On a fair value basis the Company's investments in Universal and Global had values of \$190 and \$171 respectively as at December 31, 2007 based on the closing bid prices of \$0.20 and \$0.18 respectively.

### 8. INVESTMENT IN CHARTER REIT

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

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

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

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

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

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

As a result of the dilution of the Company's interest in Charter REIT from 52.4% to 33.2% the Company recorded a gain (non-cash) on dilution of Charter REIT on its consolidated statement of operations in the third quarter of \$921. As of August 9, 2007, the Company no longer had a controlling interest in Charter REIT. In accordance with the equity method of accounting for investments a carrying value adjustment of \$418 (2006 - \$11) was taken against income based on the Company's percentage ownership for the period from August 9, 2007 to December 31, 2007 for which the Company was deemed to have significant influence over Charter REIT.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. INVESTMENT IN CHARTER REIT (continued)

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

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

### 9. INVESTMENTS IN PRIVATE ENTITIES

	2007	
	Cost	Carrying Value
A) HIGH FIDELITY HDTV INC.		
Debenture	\$ 2,245	\$ 2,381
Equity	455	548
Equity Option	50	47
	2,750	2,976
B) BIRMINGHAM FOUNDATION SOLUTIONS		
Convertible Preferred Shares	8,280	8,280
Common Shares	920	920
	9,200	9,200
C) WINDWARD TELECOM LIMITED		
Advance for Equity Interest	201	201
D) KINGSWOOD PROPERTY		
Advance for Limited Partnership Units	320	320
<b>Total - Investments in Private Entities</b>	<b>\$12,471</b>	<b>\$12,697</b>

#### A) HIGH FIDELITY HDTV INC.

In July of 2007 the Company made a \$2.75 million cash investment in High Fidelity HDTV Inc. ("High Fidelity HDTV" or "High Fidelity") in return for a 6.88% equity interest (taken in the form of common shares and nominal cost warrants to purchase common shares) as well as a debenture with a \$2.73 million face (maturity) value earning a 10% coupon (5% settled in cash and 5% paid-on-maturity) and maturing in July of 2010. In addition the Company has the right but not the obligation (the "Option") to purchase an additional 3.44% of High Fidelity's common shares within four years of the Company's initial investment at a price which presently, the Company estimates is approximately three times the current fair value.

The initial \$2.75 million cash investment was allocated to the securities received based on the estimated fair value of each investment. The debenture was 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 three years. The projected enterprise value was based on forecasted earnings before interest, taxes, depreciation and amortization (EBITDA). High Fidelity is ahead of forecasted EBITDA to date and therefore the discounted cash flow analysis remains consistent with the original investment analysis.

The Option is classified as held-for-trading and is valued using a Black-Scholes model and assumed a volatility assumption of 57%.

#### B) BIRMINGHAM FOUNDATION SOLUTIONS

In November of 2007 the Company made a \$9.2 million cash investment in Birmingham Foundation Solutions ("Birmingham") in return for a combination of common and preferred shares. The preferred shares which have a face value of \$8.28 million earn a dividend of 8.89% per annum which is payable quarterly and convert into common shares upon the sale of Birmingham.

The Birmingham investments are classified as held-for-trading.

#### C) WINDWARD TELECOM LIMITED

In November 2007 the Company reached an agreement, subject to completion and execution of definitive agreements, to invest US\$700 in Windward Telecom Limited.

As of December 2007 an advance of \$201 was funded for this transaction and is classified as held-for-trading.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### D) KINGSWOOD PROPERTY

In December 2007 the Company agreed to invest in a newly formed limited partnership that acquired a 360-unit apartment complex in Kitchener, Ontario (the "Kingswood Property").

As of December 31, 2007, a deposit of \$320 was made in trust and is classified as held-for-trading.

### 10. INTANGIBLE ASSETS

	2007		
	Cost	Accumulated Amortization	Net Book Value
Indefinite Life			
AgriFinancial Trademarks	\$ 500	\$ -	\$ 500
Limited Life			
AgriFinancial Top Dealer Relationships	400	20	380
AgriFinancial Customer Lists	300	15	285
<b>Total Intangible Assets</b>	<b>\$1,200</b>	<b>\$35</b>	<b>\$1,165</b>

The aggregate amount of intangible assets with an indefinite life and with a limited life that were acquired during the year was \$500 and \$700 respectively.

### 11. DEFERRED COSTS, PREPAID EXPENSES AND OTHER ASSETS

#### A) DEFERRED COSTS

As at December 31, 2007 the Company had deferred costs of \$300 (December 31, 2006 - \$74). The deferred costs consist primarily of legal fees incurred by the Company for the drafting of an offering memorandum related to a proposed private equity fund ("Private Equity Fund") that it is currently marketing. Any deferred costs related to the Private Equity Fund that are not expected to be recoverable will be expensed when that determination is made.

#### B) PREPAID EXPENSES AND OTHER ASSETS

	2007			2006
	Cost	Accumulated Depreciation and Amortization	Net Book Value	Net Book Value
AgriFinancial equipment for sale	\$366	\$ -	\$366	\$ -
Prepaid expenses	41	-	41	21
Other	11	-	11	10
<b>Total Other Assets</b>	<b>\$418</b>	<b>\$ -</b>	<b>\$418</b>	<b>\$31</b>

### 12. GOODWILL

Goodwill was incurred during the current year as a result of the AgriFinancial Acquisition described in Note 3. Goodwill is valued at \$716 and is not subject to amortization but is subject to an impairment test on an ongoing basis.

### 13. CAPITAL ASSETS

	2007		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
AgriFinancial Computer, Software and Tools	\$333	\$13	\$320
AgriFinancial Vehicles	85	4	81
AgriFinancial Furniture, Equipment and Terminals	70	10	60
AgriFinancial Leasehold Improvements	63	4	59
<b>Total Capital Assets</b>	<b>\$551</b>	<b>\$31</b>	<b>\$520</b>

14. CREDIT FACILITIES

AgriFinancial Canada Corp. has 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 CCAFS assets and liabilities and ongoing operations. 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 December 31, 2007, a total of \$66,536 was outstanding at an average rate of 5.28%.

The Credit Agreement obligates AgriFinancial Canada Corp. to maintain a stated total debt to capitalization ratio, 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 results 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 facility is 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 the C.A. Bancorp Financial Corp. debt and equity in AgriFinancial Canada Corp. and assignment of certain insurance proceeds.

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

15. ASSET AND INVESTMENT MANAGEMENT FEES

The Company acts as the manager (the "Manager") of Sentry Select Total Strategy Fund ("Total Strategy Fund") – an investment trust listed under the symbol TSF.UN on the Toronto Stock Exchange - for which it earns a management fee and, subject to certain conditions, performance fees (collectively the Asset Management Fees) in accordance with the terms of the prospectus dated July 27, 2006 of the Total Strategy Fund. The Company, in its capacity as Manager, has appointed Sentry Select Capital Corp. (Sentry Select") as the investment manager (Investment Manager) and pays a portion of its Asset Management Fees to the Investment Manager in the form of investment management fees (Investment Management Fees).

The Company recognized \$618 in Asset Management Fees as revenue and \$353 of Investment Management Fees as expenses for the year ended December 31, 2007 (2006 – \$196 and \$107).

The Company recognized \$113 in Asset Management Fees from Charter REIT for the year ended December 31, 2007 (2006 – nil).

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 which was effective from July 1, 2006 (replacing the previous administration agreement) and on September 25, 2006, an Amended and Restated Management Agreement (the Management Agreement) which was retroactively effective from July 1, 2006. The fees paid under the Administration and Management Agreements are intended to cover all salaries, bonuses, rent and other overhead-type operating expenses with the exception of stock options and commissions paid on mortgage broker fees earned.

A) ADMINISTRATION AGREEMENT

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

For the year ended December 31, 2007, \$480 (2006 - \$421) was charged to the Company in respect of the Administration Agreement. As of December 31, 2007 \$nil (2006 – \$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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

For the year ended December 31, 2007, the Company incurred \$972 (2006 – \$74) in Management Fees to Sentry Select. No Performance Bonus has been incurred to date.

### 17. 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 December 31, 2007, \$nil (December 31, 2006 - \$179) was due to Sentry Select for reimbursement of third party expenses of the Company paid for by Sentry Select.

#### B) CHARTER REIT

As at December 31, 2007, \$156 in acquisition and management fees were due from Charter REIT.

### 18. 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
As at December 31, 2006	14,136	\$38,592
Common Shares issued (cancelled) during the year as a result of:		
Warrants exercised	38	146
Treasury offering	14,500	47,850
Treasury offering - over-allotment	410	1,353
Issue costs	-	(4,185)
Normal course issuer bid	(401)	(1,153)
<b>As at December 31, 2007</b>	<b>28,683</b>	<b>\$82,603</b>

On August 8, 2007 the Company announced its intention to purchase and cancel shares through a normal course issuer bid through the TSX. The Company may purchase up to 7,000 shares in any trading day. As at December 31, 2007 400,700 shares were repurchased through the normal course issuer bid at an average price of \$2.24 per share including commission and were cancelled.

#### B) WARRANTS TO PURCHASE COMMON SHARES

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. SHAREHOLDERS' EQUITY (continued)

#### C) CONTRIBUTED SURPLUS

	Carrying Value
As at December 31, 2006	\$ 375
Net increase related to stock based compensation	1,119
Warrants cancelled or expired in 2007	241
Normal course issuer bid	255
<b>As at December 31, 2007</b>	<b>\$ 1,990</b>

### 19. STOCK BASED COMPENSATION

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

Pursuant to the Plan and approval by the Board of Directors on September 15, 2005, the Company granted, to directors, an aggregate of 21,500 options (of which 2,000 have been forfeited) to purchase common shares which may be exercised from issuance at a price of \$2.00 per share for a period of five years from the date of grant. The Plan and the grant of options under the Plan are subject to regulatory approval and an escrow agreement.

Pursuant to the Plan and approval by the Board of Directors on June 22, 2006, the Company granted, to certain directors, officers, employees and consultants an aggregate of 78,000 (of which 10,500 have been forfeited) options to purchase common shares which may be exercised from issuance at a price of \$3.30 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant and the remaining two-thirds vesting equally on June 22, 2007 and June 22, 2008. The estimated fair value of these options on the date of grant was \$108 and will be expensed as they vest.

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 (of which 37,500 have been forfeited) to purchase common shares which may be exercised from issuance at a price of \$3.10 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on December 22, 2007 and December 22, 2008. The estimated fair value of these options on the date of grant was \$939 and will be expensed as they vest.

Pursuant to the Plan and approval by the Board of Directors on August 21, 2007, the Company granted, to certain directors, officers, employees and consultants an aggregate of 1,275,000 options (of which 35,000 have been forfeited) to purchase common shares which may be exercised from issuance at a price of \$3.30 per share for a period of five years from the date of grant subject to vesting restrictions. One-third of the options vested on the date of grant with the remaining two-thirds vesting equally on August 21, 2008 and August 21, 2009. The estimated fair value of these options on the date of grant was \$1,588 and will be expensed as they vest.

For the year ended December 31, 2007, the Company recorded a total expense of \$1,167 (2006 - \$375) in relation to the C.A. Bancorp option grants as well as amounts expensed by Charter in the period of consolidation. The fair value of the incentive stock option grants on the date of grant were estimated using a Black-Scholes option pricing model. In determining the fair value of options, management was required to make assumptions that could have a material impact on the valuation. For the purposes of assuming a dividend yield management assumed a rate of 0%. Other assumptions used on the dates of grant including the risk-free rate and the expected volatility are disclosed in the following table which summarizes information about the stock options outstanding as of December 31, 2007:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. STOCK BASED COMPENSATION (continued)

Optionee Type	# of Optioned Shares Outstanding	Vested	Expiry Date	Exercise Price	Risk- Free Rate	Volatility Assumption	(\$ 000s) Value at Grant
Sept. 15, 2005 Grant							
Employees	19,500	19,500	Sept. 15, 2010	\$2.00	3.82%	30%	\$ 13
	19,500	19,500					13
June 22, 2006 Grant							
Employees	45,000	30,000	June 22, 2011	\$3.30	4.45%	40%	62
Non-Employees	22,500	15,000	June 22, 2011	\$3.30	4.45%	40%	31
	67,500	45,000					93
Dec. 22, 2006 Grant							
Employees	565,500	377,000	Dec. 22, 2011	\$3.10	3.80%	38%	694
Non-Employees	162,500	108,333	Dec. 22, 2011	\$3.10	3.80%	38%	199
	728,000	485,333					893
August 21, 2007 Grant							
Employees	1,040,000	346,667	Aug. 21, 2012	\$3.30	4.50%	60%	1,295
Non-Employees	200,000	66,667	Aug. 21, 2012	\$3.30	4.50%	60%	249
	1,240,000	413,334					1,545
Total All Grants	2,055,000	963,167					\$2,544

As at December 31, 2007, the weighted average contractual remaining life of the options was 4.36 (2006 – 4.92) years.

### 20. COMMITMENTS

AgriFinancial Canada Corp. has a commitment to September 30, 2011 for leased premises with aggregate annual lease payments of \$95.

### 21. FINANCIAL INSTRUMENTS

Except as disclosed elsewhere in these consolidated financial statements, the carrying value of all other financial instruments approximates their fair value.

### 22. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated future income tax assets as at year-end are as follows:

	2007	2006
Future income tax assets		
Non-capital loss carryforwards	\$ 144	\$605
Deemed capital gain on conversion of Charter shares to Charter REIT units	435	-
Other Charter REIT carrying value adjustments	104	-
Net unrealized loss on investments	587	159
Cumulative eligible capital pool expenses	30	28
Return of capital distributions	(43)	-
AgriFinancial leasing activity - asset amortization	5,009	-
AgriFinancial leasing activity - income recognition	(4,913)	-
Other	(8)	-
	1,345	792
Valuation allowance	-	(792)
Future tax asset	\$1,345	\$ -

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. INCOME TAXES (continued)

As at December 31, 2007, the Company and its subsidiaries had non-capital losses available to be carried forward to offset income in future years of \$309. No valuation allowance has been recorded as the Company believes that it is more likely than not that the future tax asset will be realized. These losses are still available to offset future taxable income up to the date of their expiry. These losses expire as follows:

Year	
2015	\$ 84
2026	14
2027	211
	<u>\$309</u>

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

	For the years ended December 31,	2007	2006
Loss before income taxes and non-controlling interest		<b>\$(1,597)</b>	\$(1,736)
Combined federal and provincial income tax rate		<b>36.1%</b>	36.1%
Expected recovery for income taxes		<b>(577)</b>	(627)
Permanent differences		<b>459</b>	109
Temporary differences		-	(157)
Future tax rate change		<b>201</b>	-
Other		<b>26</b>	-
Unrecognized benefit of tax losses		-	675
Valuation allowance		-	-
Recognition of previously unrecognized tax losses		<b>(759)</b>	-
Net tax recovery		<b>\$(650)</b>	\$ -
Current tax provision		<b>\$695</b>	\$ -
Future tax recovery		<b>(1,345)</b>	-
Net tax recovery		<b>\$(650)</b>	\$ -

### 23. SEGMENT DISCLOSURES

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

1. Financial Services - includes agricultural lending, commercial real estate lending and commercial mortgage brokering.
2. Investing and Asset Management - includes private and public entity "direct" investments (excluding real estate) and asset management activities (excluding real estate management or lending activities).
3. Real Estate - includes real estate equity (Charter REIT, Kingswood) and real estate management (the management contract on Charter REIT).

	2007			
	Financial Services	Investing and Asset Management	Real Estate	Total
Revenues	\$ 2,409	\$ 4,756	\$ 2,201	\$ 9,366
Net results of investments	-	(2,160)	955	(1,205)
Expenses	(2,016)	(3,419)	(4,323)	(9,758)
Income (loss) before net recovery of income taxes	393	(823)	(1,167)	(1,597)
Net (provision) recovery of income taxes	(137)	787	-	650
Net income (loss) before non-controlling interest	256	(36)	(1,167)	(947)
Non-controlling interest	(15)	-	979	964
<b>Net income (loss)</b>	<b>\$ 241</b>	<b>\$ (36)</b>	<b>\$ (188)</b>	<b>\$ 17</b>
<b>Total Assets</b>	<b>\$88,056</b>	<b>\$48,156</b>	<b>\$18,136</b>	<b>\$154,348</b>

Comparatives are not provided for 2006 as the Company had limited operations and did not organize itself by segments.

## 24. RISK MANAGEMENT

## MARKET RISK

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

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

## LIQUIDITY RISK

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

## INTEREST RATE RISK

The Company earns interest on certain assets at fixed prices and pays interest on its credit facilities at variable rates which exposes the Company to interest rate risk. The Company's profit margin may be eroded from a rise in interest rates. The Company may, from time to time, enter into interest rate swaps to hedge interest rate risk.

## 25. SUBSEQUENT EVENTS

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

On February 20, 2008, C.A. Bancorp, acting as Manager of the Total Strategy Fund, announced that 71% of the units in the Total Strategy Fund were submitted for an annual redemption. The net assets of the Fund are expected to be approximately \$16 million post-redemption.

On February 21, 2008, the Company, through its wholly-owned subsidiary, C.A. Bancorp Telecom Inc., completed a U.S. \$700,000 equity investment in Windward Telecom Limited ("Windward"). \$200,000 of the investment was funded in 2007 and is reflected in "Investments in Private Entities" in Note 9.

On February 22, 2008, the Company closed an initial public offering of Preferred Shares for a newly created mutual fund corporation, CRFC. 1,440,000 Preferred Shares were issued at \$25 each for total gross proceeds raised of \$36 million. The Preferred Shares have a 10 year term and pay dividends at 6.75% p.a. The Company subscribed for 741,000 Class A shares at \$10 a share for a total cost of \$7.4 million. The Class A shares are subordinate to the Preferred Shares. CRFC is a single purpose entity created to provide investors with tax-efficient exposure to a portfolio of commercial real estate loans and mortgages in Canada. At closing, the entire portfolio of commercial real estate loans totaling \$12.7 million (\$8.0 million as at December 31, 2007 plus an additional \$4.7 million in loans funded subsequent to year-end) was sold to a limited partnership managed by the Company in conjunction with closing of CRFC.

On February 29, 2008, the Company funded \$3.6 million worth of debt and equity investments in the privately held Salbro Bottling group of companies.

## 26. COMPARATIVE FIGURES

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