

# URBANA CORPORATION

## INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

For the six month period ended June 30, 2010

This interim management report of fund performance follows the disclosure requirements of the Canadian Securities Administrators' National Instrument 81-106. It contains financial highlights but does not contain the complete interim or annual financial statements of Urbana Corporation ("Urbana"). You can get a copy of Urbana's interim or annual financial statements at your request, and at no cost, by calling Urbana collect at (416) 595-9106, by writing to us at: 150 King Street West, Suite 1702, Toronto, Ontario M5H 1J9 or by visiting our website at [www.urbanacorp.com](http://www.urbanacorp.com) or the SEDAR website at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of Urbana's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### **Forward-looking Statements**

*Certain statements included in this report may constitute forward-looking statements to the extent they relate to Urbana or its investment manager, Caldwell Investment Management Ltd. Such forward-looking statements are not historical facts but reflect Urbana's or the Investment Manager's current expectations regarding future results or events. Such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Readers are cautioned to consider these and other factors carefully when making decisions with respect to Urbana and not place undue reliance on forward-looking statements. Unless required by applicable law, Urbana does not undertake any obligation to update publicly or to revise any of such forward-looking statements, whether as a result of new information, future events or otherwise.*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### **Results of Operations**

Urbana's net shareholders' equity decreased from \$174,679,405 at the end of 2009 to \$171,415,888 at the end of June, 2010, a decrease of \$3,263,517. Net assets (as described in note 11 to the interim financial statements) per common share was \$1.98 per share as at June 30, 2010 compared to \$2.00 as at December 31, 2009, representing a decrease of 1.00%. The net assets per share for the Non-Voting Class A Shares, which have the same rights as the common shares upon liquidation, is the same as the net assets per common share.

Dividend income in the first six months of this year was \$4,695,667 as compared to \$2,004,111 for the same period in 2009. The increase was due mainly to the dividend received in relation to

the demutualization of the Chicago Board of Options Exchange (“CBOE”). Seat rental income decreased from \$1,515,651 in the first six months of 2009 to \$729,692 in the first six months of this year. This decrease was due mainly to the significant decrease in seat rental income from the CBOE seats. In the first six months of 2010, Urbana’s operations resulted in a net loss of \$2,014,063 (a net gain of \$1,592,101 before net unrealized loss on foreign exchange and investments, non-controlling interests and income taxes) as compared to a net loss of \$857,084 (a net loss of \$2,223,253 before the specified items) in the same period of 2009.

The long anticipated demutualization of the CBOE took place on June 15, 2010. As a result of the demutualization, the 25 CBOE seats owned by Urbana were converted to 2,000,000 shares of CBOE Holdings, Inc., which became the parent company of the CBOE and the common shares of which are listed for trading on NASDAQ. Of these 2,000,000 shares, Urbana sold 240,000 shares immediately after the conversion for a net proceeds of \$6,677,442. The remaining 1,760,000 shares are restricted in that half of them are not freely tradable until December 15, 2010 and the other half have similar trading restriction until June 15, 2011.

### **Normal Course Issuer Bid**

On August 26, 2009 the Toronto Stock Exchange accepted Urbana’s notice of intention to conduct a normal course issuer bid to purchase up to 6,650,723 of its Non-Voting Class A Shares (the “NCIB”), representing 10% of the public float, pursuant to TSX rules. Purchases under the NCIB were permitted starting on August 28, 2009, and will terminate on the earlier of August 27, 2010, the date Urbana completes its purchases pursuant to the notice of intention to make a normal course issuer bid filed with the TSX or the date of notice by Urbana of termination of the bid. Purchases are to be made on the open market by Urbana through the facilities of the TSX in accordance with the rules and policies of the TSX. The price that Urbana may pay for any such shares shall be the market price of such shares on the TSX at the time of acquisition. The shares purchased under the NCIB shall be cancelled. Urbana will not purchase in any given 30 day period, in the aggregate, more than 1,340,000 Non-Voting Class A Shares, being 2% of the 67,000,000 issued and outstanding Non-Voting Class A Shares as at August 26, 2009. As at June 30, 2010, Urbana has purchased 870,120 Non-Voting Class A Shares on the open market pursuant to the NCIB at an average purchase price of \$1.44 per share. During the twelve months immediately preceding the NCIB, Urbana purchased 1,336,582 Non-Voting Class A Shares on the open market at an average price of \$1.29 per share pursuant to a previous notice of intention to conduct a normal course issuer bid accepted by the TSX on August 26, 2008.

### **Demand Loan Facility**

On February 19, 2008, Urbana entered into a demand loan facility with Bank of Montreal (the ‘Bank’). In July 2009 the loan facility agreement was amended to allow Urbana to borrow up to \$15,000,000 from the Bank at any given time. Interest is charged on the outstanding balance of the loan facility at the Bank’s prime rate plus 2.75%, calculated on a daily basis and paid monthly. The loan facility is secured by a general charge on Urbana’s assets and allows Urbana to purchase additional interests in public and/or private exchanges around the world. As at June 30, 2010, the outstanding balance of the loan was \$4,155,000 representing 2.42% of the net assets of Urbana. The proceeds from this loan facility so far have mainly been used to purchase interests in various exchanges and investments in StoneCap Securities Inc.

## Acquisitions and Dispositions of Investments

From January 1, 2010 to June 30, 2010, Urbana made the following significant acquisitions and dispositions of investments:

### Acquisitions

Investment	Quantity	Type of Securities	Cost
NYSE Euronext	164,019	shares	\$5,172,513
Bombay Stock Exchange	436,000	shares	3,790,779
2232057 Ontario Inc. (investment in StoneCap Securities Inc.)	2,200,000	shares	2,200,000
Kansas City Board of Trade	2	seats	660,534
Minneapolis Grain Exchange	1	seat	97,517
2232057 Ontario Inc. (investment in StoneCap Securities Inc.)		promissory note	2,500,000

### Dispositions

Investment	Quantity	Type of Securities	Proceeds
CBOE Holdings, Inc.	240,000	shares	\$6,677,442

## Recent Developments

### Changes in Accounting Policy

The Accounting Standards Board (AcSB) of the CICA has announced its intention to replace Canadian generally accepted accounting principles (“GAAP”) with International Financial Reporting Standards (“IFRS”) for all publicly accountable entities (which includes investment funds) effective January 1, 2011. On May 12, 2010 the AcSB proposed that Canadian companies that currently apply Accounting Guideline 18, including Urbana, may continue to follow existing GAAP as it appears in Part V of the CICA Handbook, including Accounting Guideline 18, until fiscal years beginning on or after January 1, 2012. Under the AcSB proposal, early adoption of IFRS will still be permitted. This AcSB proposal would effectively give Urbana an additional one year in its adoption of IFRS. Urbana is currently working with its service providers to develop a changeover plan and determine the impact on information systems and business arrangements. Based on a preliminary assessment, Urbana does not believe any significant changes to its information systems are required, and does not anticipate the changeover to IFRS will materially impact its existing business arrangements. Urbana has identified significant policy differences between GAAP and IFRS, but does not expect a material impact on net asset value per unit on adoption. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures in Urbana’s financial statements.

## Related Party Transactions

Caldwell Financial Ltd., a company under common management with Urbana, is the parent company of Caldwell Investment Management Ltd. (“CIM”), the investment manager of Urbana. In the six month period ended June 30, 2010, CIM earned from Urbana investment management fees of \$1,210,478 (June 30, 2009 – \$1,060,830). In the six month period ended June 30, 2010, CIM absorbed no expenditures relating to Urbana (June 30, 2009 - \$ Nil). As at June 30, 2010 there was an investment management fee payable of \$616,361 to CIM (December 31, 2009 – \$536,991). There were no other fees payable to related parties as at June 30, 2010.

Subsequent to its establishment, the Independent Review Committee of Urbana has made a recommendation to Urbana and CIM to execute portfolio transactions through Caldwell Securities Ltd., a sister company of CIM and a registered broker and investment dealer, provided that such transactions are executed on terms as favourable or more favourable to Urbana as those executed through broker-dealers unrelated to CIM.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about Urbana and are intended to help you understand Urbana’s financial performance for the six month period ended June 30, 2010 and for the prior four financial years.

Urbana’s Net Assets per Share <sup>(1,2&amp;3)</sup>						
	Six months ended 06/30/2010	2009	2008	2007	2006	2005
Net assets, beginning of year/period	2.00	\$2.05	\$3.37	\$2.68	\$1.26	\$0.71
Realized gain(loss) for the year/period	(0.01)	(0.05)	(0.05)	0.06	0.02	(0.02)
Unrealized gain(loss) for the year/period	(0.05)	(0.00)	(1.52)	0.31	1.78	0.66
Total Investment income for the year/period	0.06	0.08	0.07	0.06	0.04	0.04
Total expenses for the year/period, including future taxes <sup>(4)</sup> , and non-controlling interest portion of gain/loss	(0.03)	(0.05)	(0.08)	(0.13)	(0.37)	(0.13)
Distributions	Nil	Nil	Nil	Nil	Nil	Nil
Net assets, end of year/period <sup>(5)</sup>	1.98	2.00	2.05	3.37	2.69	1.26

(1) This information is derived from Urbana’s audited annual financial statements and most recent unaudited interim financial statements. The net assets per share presented in the financial statements differs from the net asset value calculated for fund valuation purposes due to differences in valuation techniques as described in the note 11 to the interim financial statements.

(2) Net assets are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(3) The net assets for the periods beginning 2007 and onward are shown as net assets and the net assets for all prior periods are shown as net asset values (see note (1) above).

(4) Total expenses include future taxes only where future taxes are an expense. Where future taxes are a revenue (i.e. a future tax credit), total expenses do not include future taxes.

(5) This is not a reconciliation of beginning and ending net assets per share.

<b>Ratios and Supplemental Data</b>						
	<b>Six months ended 06/30/2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total net asset value(000's) <sup>(1)</sup>	\$173,126	\$174,683	\$158,821	\$262,841	\$26,917	\$11,334
Shares outstanding <sup>(1)</sup>	86,656,200	87,526,320	77,100,000	78,061,518	10,000,000	9,000,000
Management expense ratio excluding share issuance costs <sup>(2)</sup>	2.82%	2.94%	2.77%	2.99%	4.60%	3.25%
Management expense ratio including share issuance costs	2.82%	4.32%	2.77%	10.50%	4.93%	3.25%
Management expense ratio excluding share issuance costs before waivers or absorptions	2.82%	2.94%	3.03%	3.37%	4.60%	3.25%
Portfolio turnover ratio <sup>(3)</sup>	4.31%	2.23%	5.22%	3.00%	10.17%	8.03%
Trading expense ratio <sup>(4)</sup>	0.56%	0.00%	0.08%	0.00%	0.00%	0.18%
Net asset value per share	\$1.99	\$2.00	\$2.06	\$3.37	\$2.69	\$1.26
Closing market price (common)	\$1.50	\$1.51	\$1.51	\$5.40	\$3.00	\$2.00
Closing market price (Class A)	\$1.40	\$1.48	\$1.35	\$5.15	-	-

- (1) This information is provided as at the end of the stated period/financial year.
- (2) Management Expense Ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of weekly average net asset value during the period.
- (3) Urbana's portfolio turnover rate indicates how actively the corporation's investment manager manages Urbana's portfolio securities investments. A portfolio turnover rate of 100% is equivalent to the corporation buying and selling all of the securities in the portfolio once in the course of the year. The higher a company's portfolio turnover rate in a year, the greater the trading costs payable by the company in the year, and the greater the chance that the company will receive taxable gains or losses in the year. There is not necessarily a relationship between a high turnover rate and the performance of the investment portfolio.
- (4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the period.

## **Management Fees**

Investment management fees are charged for portfolio management services in accordance with an investment management agreement with CIM. Investment management fees accrue on the basis of 1.50% per annum of the market value of the equity securities in Urbana's investment portfolio and 0.50% of the market value of the fixed income securities in the corporation's investment portfolio. During the six month period ended June 30, 2010, CIM earned \$1,210,478 of investment management fees from Urbana and absorbed no expenditures related to Urbana. The investment management fees are accrued and paid quarterly in arrears.

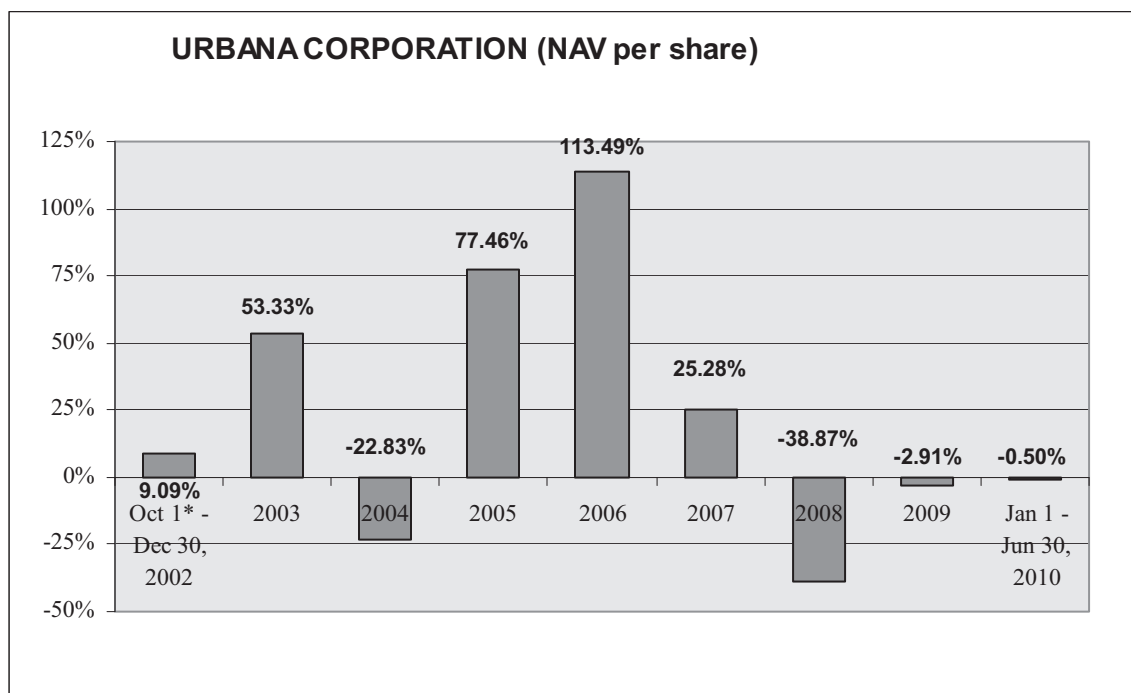
## PAST PERFORMANCE

The performance information presented in this section shows how Urbana has performed in the past and does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the net asset value performance of Urbana’s common shares for the financial years/periods indicated. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year/period would have grown or decreased by the last day of each financial year/period based on the net asset value (NAV) per share of Urbana.

Urbana’s Non-Voting Class A Shares were first issued on January 11, 2007. The Non-Voting Class A Shares, which have the same rights as the common shares upon liquidation, have the same NAV per share as the common shares.



\*CIM began managing Urbana’s investment portfolio on October 1, 2002.

**SUMMARY OF INVESTMENT PORTFOLIO**  
**(non-consolidated)**  
**As at June 30, 2010**

The following data is extracted from Urbana's financial statements:

Number of Shares/ Units/Seats	Description	Cost	Fair Value	% of Portfolio Fair Value	% of Total Net Asset Value
1,900,000	NYSE Euronext	\$121,494,554	\$55,765,747	32.52%	32.53%
880,000	CBOE Holdings Inc. (transfer restriction until December 15, 2010)	29,428,686	29,939,259	17.46%	17.47%
880,000	CBOE Holdings Inc. (transfer restriction until June 15, 2011)	29,428,686	29,428,686	17.16%	17.17%
2,814,808	Bombay Stock Exchange (shares held by Caldwell India Holdings Inc. and Urbana Mauritius Inc.)	29,564,796	24,432,315	14.25%	14.25%
169,341	Budapest Stock Exchange	4,761,242	6,612,632	3.86%	3.86%
180,000	TMX Group	7,058,590	5,002,200	2.92%	2.92%
42	Minneapolis Grain Exchange	10,243,993	4,239,974	2.47%	2.47%
11	Kansas City Board of Trade	5,948,449	4,324,986	2.52%	2.52%
2,200,000	2232057 Ontario Inc. <sup>1</sup>	2,200,000	1,821,600	1.06%	1.06%
1,250,000	CNSX Markets Inc. <sup>2</sup> (convertible debenture)	1,250,000	1,250,000	0.73%	0.73%
55	OneChicago LLC	3,175,830	354,878	0.21%	0.21%
24,683	Bermuda Stock Exchange	533,099	242,315	0.14%	0.14%
50,000	Bulgarian Stock Exchange	724,589	114,870	0.07%	0.07%
2,500,000	2232057 Ontario Inc. (Unsecured subordinated promissory note – 10%) <sup>1</sup>	2,500,000	2,500,000	1.46%	1.46%
	Cash and Cash Equivalents	5,459,844	5,459,844	3.18%	3.19%
		<u>\$253,205,408</u>	<u>\$171,489,306</u>		

<sup>1</sup>Investments in StoneCap Securities Inc.

<sup>2</sup>CNSX Markets Inc. – formerly Canadian Quotation and Trading System Inc. Urbana also holds 312,500 class A shares of CNSX Markets Inc. The shares have nil market value and will be cancelled at the time the debenture matures.

The above summary of the investment portfolio may change due to ongoing portfolio transactions. Weekly and quarterly updates are available at Urbana's website at [www.urbanacorp.com](http://www.urbanacorp.com)

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