

# URBANA CORPORATION

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2011

This annual 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 annual financial statements of Urbana Corporation ("Urbana"). You can get a copy of Urbana's 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, including those identified by the expressions "anticipate", "expect" or similar expressions 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.*

*Forward-looking statements included or incorporated by reference in this report include statements with respect to:*

- *Risk*
- *Results of Operations*

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### **Investment Objective and Strategies**

The long-term strategy of Urbana is to continue to seek and acquire investments for income and capital appreciation. Currently, management has identified the financial services sector as attractive for longer term growth.

## **Risk**

There were no material changes to Urbana's investment style over the financial year that affected the overall level of risk associated with investment in the corporation. The suitability and investor risk tolerance remains unchanged over the years as that of an aggressive growth vehicle with concentrated investment positions. The risks associated with investing in Urbana are described in Urbana's last short form prospectus dated November 2, 2009 under the heading of "Risk Factors".

## **Results of Operations**

Net shareholders' equity decreased from \$148,097,106 at the end of 2010 to \$126,668,573 at the end of 2011, a decrease of \$21,428,533. Net Assets (as described in note 10 to the audited annual financial statements) per common share was \$1.70 as at December 31, 2011 compared to \$1.83 as at December 31, 2010, representing a decrease of 7.10%. 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 2011 was \$4,218,426 as compared to \$6,607,859 in 2010. The decrease in dividend was mainly due to the fact that in 2010, Urbana received a one-time special dividend in connection with the demutualization of the Chicago Board of Option Exchange ("CBOE") while no similar special dividend was received in 2011.

In 2011, Urbana did not receive any seat rental income because it did not hold any investment in private exchanges that generated seat/membership rental income during the year. Urbana's operations in 2011 resulted in a net loss of \$13,591,825 (\$8,806,152 before net unrealized loss on foreign exchange and investments, non-controlling interests and income taxes) as compared to a net loss of \$18,404,855 (\$3,327,600 before the specified items) in 2010.

At the end of 2010, Urbana owned 880,000 freely tradable common shares and 880,000 restricted common shares of the CBOE. These shares were restricted in that they were not freely tradable until June 15, 2011. The restriction was subsequently removed as scheduled and as a result, all CBOE shares owned by Urbana became freely tradable.

## **Normal Course Issuer Bid**

On August 25, 2011 the Toronto Stock Exchange accepted Urbana's notice of intention to conduct a normal course issuer bid to purchase up to 6,636,033 of its own 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 29, 2011, and will terminate on the earlier of August 28, 2012, 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 is to be the market price of such shares on the TSX at the time of acquisition. The shares purchased under the NCIB are to be cancelled. Urbana is not to purchase in any given 30 day period, in the aggregate, more than 1,340,222 Non-Voting Class A Shares, being 2% of the 67,011,100 issued and outstanding Non-Voting Class A Shares as at August 19, 2011 (the date on which the notice was filed). As at December 31, 2011, Urbana has purchased 2,603,100 Non-Voting Class A Shares pursuant to the NCIB. These shares were

purchased on the open market at an average purchase price of \$0.97 per share. Previously, the Toronto Stock Exchange had accepted Urbana's notices of intention to conduct normal course issuer bids for the periods of August 28, 2008 to August 27, 2009, August 28, 2009 to August 27, 2010 and August 28 2010 to August 27, 2011 ("Previous NCIBs"). Pursuant to these Previous NCIBs, Urbana purchased, respectively during these periods, 1,336,582 Non-Voting Class A Shares at an average price of \$1.28 per share, 3,083,920 Non-Voting Class A Shares at \$1.32 per share and 7,431,300 Non-Voting Class A Shares at \$1.27 per share.

### **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 investments. As at December 31, 2011, the outstanding balance of the loan was \$13,600,000 (2010 - \$13,455,000) which is the fair value of the loan.

### **Acquisitions and Dispositions of Investments**

During 2011, Urbana made the following significant acquisitions and dispositions of investments:

#### **Acquisitions**

<b>Investment</b>	<b>Quantity</b>	<b>Type of Investments</b>	<b>Cost</b>
2232057 Ontario Inc. (Investment in Stonecap Securities Inc.)	125,000	shares	\$124,620
Bank of America Corp.	50,000	shares	736,548
Manulife Financial Corp.	50,000	shares	879,800
TMX Group Inc.	20,000	shares	820,167
Citigroup Inc.	100,000	shares	498,663
Arzak Global Securities Loan	--	loan	2,053,600
Various Horizons Beta Pro Funds	380,000	units	3,344,951

#### **Dispositions**

<b>Investment</b>	<b>Quantity</b>	<b>Type of Investment</b>	<b>Proceeds</b>
Bulgarian Stock Exchange	50,000	shares	97,938
CBOE Holdings Inc.	160,000	shares	3,972,735
TMX Group Inc.	50,000	shares	2,184,408
Citigroup Inc.	300,000	shares	1,269,454
Minneapolis Grain Exchange	15	seats	1,763,848
Manulife Financial Corp.	100,000	shares	1,466,568
Bank of America Corp.	125,000	shares	793,845
Various Horizons Beta Pro Funds	350,000	units	3,048,314

## **Recent Developments**

### **Changes in Accounting Policy**

In September, 2010, the Canadian Accounting Standards Board (“AcSB”) approved a one year deferral of adoption of IFRS for investment companies currently applying Accounting Guideline 18, Investment Companies, which include investment funds. In January 2011, the AcSB made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 2013 and again in December 2011 decided on an additional deferral to January 2014. This resulted in a three year deferral of IFRS adoption by investment companies compared to other publicly accountable entities. The AcSB noted in its decision summary that the deferral is a result of the delay in the International Accounting Standards Board’s investment company project and that a final standard would likely not be issued before January 2012, the previous mandatory IFRS changeover date for investment companies in Canada.

### **Related Party Transactions**

Caldwell Financial Ltd., a company under common management with Urbana, is the parent company of the Investment Manager, Caldwell Investment Management Ltd. (“CIM”). In 2011 and 2010, investment management fees of \$2,730,726 and \$2,353,731 respectively were earned by CIM in connection with its services to Urbana. For the year ended December 31, 2011, CIM absorbed no expenditures relating to Urbana (December 31, 2010 - \$nil). As at December 31, 2011 there was an investment management fees payable of \$652,232 (December 31, 2010 – \$571,110) to CIM. There were no other fees payable to related parties as at December 31, 2011.

Subsequent to its establishment, the Independent Investment Review Committee 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 past five years.

<b>Urbana's Net Assets per Share<sup>(1 &amp; 2)</sup></b>					
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net assets, beginning of year	1.83	2.00	\$2.05	\$3.37	\$2.68
Realized gain(loss) for the year	(0.11)	(0.07)	(0.05)	(0.05)	0.06
Unrealized gain(loss) for the year	(0.09)	(0.22)	(0.00)	(1.52)	0.31
Total Investment income for the year	0.06	0.09	0.08	0.07	0.06
Total expenses for the year, including future taxes <sup>(3)</sup> , and non-controlling interest portion of gain/loss	(0.01)	(0.02)	(0.05)	(0.08)	(0.13)
Distributions	Nil	Nil	Nil	Nil	Nil
Net assets, end of year <sup>(4)</sup>	1.70	1.83	2.00	2.05	3.37

- (1) This information is derived from Urbana's audited annual 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 note 11 to the 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) Total expenses include future taxes only where future taxes are a liability. Where future taxes are an asset (i.e. a future tax credit), total expenses do not include future taxes.
- (4) This is not a reconciliation of beginning and ending net assets per share.

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total net asset value(000's) <sup>(1)</sup>	\$126,669	\$148,103	\$174,683	\$158,821	\$262,841
Shares outstanding <sup>(1)</sup>	74,408,000	81,066,100	87,526,320	77,100,000	78,061,518
Management expense ratio excluding share issuance costs <sup>(2)</sup>	3.20%	2.76%	2.94%	2.77%	2.99%
Management expense ratio including share issuance costs	3.20%	2.76%	4.32%	2.77%	10.50%
Management expense ratio excluding share issuance costs before waivers or absorptions	3.20%	2.76%	2.94%	3.03%	3.37%
Portfolio turnover ratio <sup>(3)</sup>	5.56%	7.21%	2.23%	5.22%	3.00%
Trading expense ratio <sup>(4)</sup>	0.08%	0.44%	0.00%	0.08%	0.00%
Net asset value per share	1.70	\$1.83	2.00	\$2.06	\$3.37
Closing market price (common)	0.89	\$1.29	\$1.51	\$1.51	\$5.40
Closing market price (Class A)	0.89	\$1.23	\$1.48	\$1.35	\$5.15

- (1) This information is provided as at December 31 of the year shown.
- (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.

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