

# **URBANA CORPORATION**

## **ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

**For the year ended December 31, 2005**

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**This report may contain forward-looking statements. Forward-looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward-looking statements.**

## **CHANGES IN REPORTING REQUIREMENTS**

By a resolution of the Corporation's shareholders and approval of the TSX Venture Exchange ("TSXV"), the Corporation changed its listing on the TSXV from a mining issuer to an investment issuer in July 2005. Due to the substantial investment activities of Urbana, the Corporation is now considered a "non-redeemable investment fund" under the Ontario Securities Act and is required to comply with the new National Instrument 81-106 - Investment Fund Continuous Disclosure ("NI 81-106"), which came into force on June 1, 2005.

This management report of fund performance ("MRFP") follows the disclosure obligations under NI 81-106. It contains financial highlights but does not contain the complete financial statements of the Company. You can get a copy of the annual financial statements at your request, and at no cost, by calling the Company collect at (416) 595-9106, writing to us at: 150 King St. W., Suite 1702, Toronto, Ontario M5H 1J9 or visiting 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 the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## **INVESTMENT TEAM**

The investment activities of the Company are handled by Caldwell Investment Management Ltd. ("CIM") in Toronto. Profiles are as follows:

### **Charles Hughson**

Strategic Advisor

Mr. Hughson is an investment industry professional with over three decades of experience. Graduating from the University of Aberdeen, Scotland, with an M.A. (Hons.) degree in economics, he began his career as an investment analyst in the City of London, England. Mr. Hughson immigrated to Canada in 1975 and joined the Alberta Treasury department, then a leading Canadian life insurance company.

### **Brendan T.N. Caldwell**

B.Sc., M.A., FCSI, CFA

Mr. Caldwell holds a B.Sc. from the University of Toronto, Trinity College, an M.A. from the University of London and a Chartered Financial Analyst (CFA) designation. Prior to joining the Investment Management team, Mr. Caldwell worked for a large, international investment banking organization and a major mutual fund company.

### **John R. Kinsey**

Mr. Kinsey contributes over forty years of investment experience, which includes portfolio management, research and trading. He also coordinates the equity research functions which include monitoring our firm's overall universe of securities followed.

### **Thomas S. Caldwell, C.M.**

B.Comm. Hons-Economics, FCSI

Having held progressively senior positions at major investment firms in Toronto, Montreal and New York since 1965, Mr. Caldwell founded Caldwell Securities Ltd. in 1980. He serves as Chairman of CIM and has responsibility for overall strategy.

**J. Dennis Freeman**

Mr. Freeman’s investment experience has been primarily focused on the fixed income sector, including managing major bond funds. His broad experience and market strategy views are highly regarded in the investment industry.

**Robert M. Callander**

B.Sc., M.B.A., CFA

Mr. Callander is an investment industry executive with over thirty years experience, including senior positions in investment research and corporate finance. He provides financial advisory services to both institution and private clients. Mr. Callander is a Chartered Financial Analyst (CFA) and professional geologist.

**Thomas Ratnik**

B.A.Sc., P.Eng.

Mr. Ratnik’s responsibilities include market strategy, timing and technical analysis. With forty years experience as a technical analyst, Mr. Ratnik has developed a series of criteria which assist in establishing entry and exit points for equity portfolio positions. Mr. Ratnik is a professional engineer.

**Jennifer Radman**

Analyst

Ms. Radman joined the firm in June 2004 as a research associate. She graduated with honours with a business degree from the University of South Carolina, and is currently enrolled in the third level of the CFA program.

Thomas S. Caldwell, as the lead investment manager for the Company, supervises the overall investment activities conducted by CIM on the Company’s behalf. He serves as the Company’s President.

**INVESTMENT OBJECTIVES & STRATEGIES**

Urbana seeks to provide long-term capital growth through investing in a wide spectrum of opportunities. Potential investments can range from publicly-traded securities to private companies to other assets. The Investment Management Team at CIM attempts to seek out opportunities which will provide above average returns over a longer period of time, while blending that approach with shorter term trading opportunities.

**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 Urbana. The suitability and investor risk tolerance remains unchanged over the years as that of an aggressive growth vehicle with concentrated investment positions.

**RESULTS OF OPERATIONS**

Urbana’s net shareholder equity grew by \$4,916,823 to \$11,334,873, or by 77%, despite writing down to nil the Company’s resource holdings by \$1,094,038. There were no shares issued during the past year. There were no material changes in our investment holdings or investment style over the year, with the predominant position being in New York Stock Exchange memberships (“Seats”). These Seats improved in valuation as that

organization moved to demutualize and completed the steps necessary to become a for-profit, publicly-traded corporation, NYSE Group, Inc.

Urbana also purchased \$675,790 of Caldwell Opportunities Growth Trust during the year, with a view of both adding to our Seat participation as well as obtaining ownership interests in Chicago Board Options Exchange memberships and other exchanges. The value of that position as of year end was \$736,919.

#### **RECENT DEVELOPMENTS**

Throughout the 2005, several events occurred to enhance the value of our NYSE Seat investment. On April 20, 2005 the NYSE announced a merger with Archipelago Inc., a publicly-traded electronic market. In one step the NYSE began a move to demutualize and become a for-profit, publicly traded corporation. This event, along with subsequent approval votes, resulted in a significant upward move in the value of our holdings by approximately \$7,000,000.

After the turn of the year, further increases in value have occurred as Seats were exchanged for NYSE Group, Inc. stock. As a result, Urbana now holds 254,087 shares of that entity with a quoted value, as of March 31, 2006, of \$23,502,111.

#### **RELATED PARTY TRANSACTIONS**

Thomas S. Caldwell is a director and officer of Caldwell Securities Ltd. (“CSL”) and Caldwell Investment Management Ltd. (“CIM”), both companies which have dealings with Urbana. Mr. Caldwell is also a director and officer of Caldwell Asset Management Inc. (“CAM”) and Caldwell Financial Ltd. (“CFL”), this latter company being a substantial shareholder (3,800,000 shares) of Urbana. In 2005, CIM paid a consulting fee to Urbana in the amount of \$87,500 for certain administrative services (2004 - \$65,000). In 2005 Urbana Corporation paid rent of \$96,300 to CSL and CAM (2004 - \$45,341) and investment management fees of \$3,137 were charged to the Company by each of CAM and CIM (2004 – \$6,527)

CFL has a loan outstanding to Urbana in the amount of \$1,118,268 on which interest accrues at the prime rate or lower, as negotiated each year. Interest payments were \$56,576 in 2005 (2004-\$30,136).

Robert M. Callander is an officer of CSL.

Michael B.C. Gundy is an independent director of CIM and serves on that company’s Audit Committee.

John R. Campbell is in independent director of CIM and serves on that company’s Audit Committee.

## FINANCIAL HIGHLIGHTS

As Urbana Corporation's shareholders approved a change of business on June 24, 2005 from a mining issuer to an investment issuer, only 2005 financial highlights are being reported. The above changed has been filed on SEDAR and confirmed by the TSX Venture Exchange confirmation dated July 8, 2005.

The following table shows selected key financial information about Urbana and is intended to help you understand Urbana's financial performance for the past year. This information is derived from Urbana's annual financial statements.

*The following are per share calculations for 2005:*

Net asset value, beginning of year	\$0.71
Realized losses for the year	(\$0.02)
Investment income for the year	\$0.04
Total expenses for the year, including future taxes	(\$0.13)
Unrealized gains for the year	\$0.66
Net asset value as at December 31, 2005	\$1.26

## RATIOS & SUPPLEMENTAL DATA (2005)

Net Investment Assets	\$13,463,669
Shares outstanding (1)	9,000,000
Management Expense Ratio (2)	3.25%
Portfolio Turnover Ratio (3)	0.15 %
Trading Expense Ratio (4)	0.07%

(1) The above information is provided as at December 31, 2005.

(2) The Management Expense Ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period (including the write-down of the resource property).

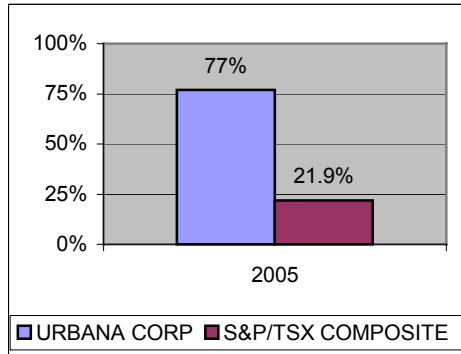
(3) The Company's turnover rate indicates how actively the Company's investment manager manages its liquid securities investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in the portfolio once in the course of the year. The higher a company's 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 daily average net assets during the period.

## INVESTMENT MANAGEMENT FEES

Investment management fees will accrue on the basis of 1.5% effective as of May 1, 2006 of the investment assets under administration. During 2005, \$6,274 investment management fees were charged to Urbana by CIM and CAM and accrued as Urbana did not have the liquidity to pay fees. Investment management fees are charged for portfolio management services in accordance with an Investment Management Agreement with CIM.

## PAST PERFORMANCE



## ANNUAL COMPOUND RETURNS

	<u>2005</u>
Percentage Return	77.0%
S&P/TSX Composite	21.9%

## SUMMARY OF INVESTMENT PORTFOLIO

Urbana's investment portfolio was, at year end, made up of two components: three Seats on the New York Stock Exchange, worth \$12,726,750 at year-end or 94%, of the investment portfolio (now 254,097 shares of NYSE Group, Inc.) and, \$71,387, or 0.5% in cash and \$736,919, or 5.5%, invested in the Caldwell Growth Opportunities Trust. This latter investment was at year-end comprised of interests in New York Stock Exchange Seats and memberships in the Chicago Board Options Exchange.

The above summary of the investment portfolio may change. A quarterly update is available.

### **CHANGE IN ACCOUNTING POLICIES**

Subsequent to its change from a mining issuer to an investment issuer, in the final quarter of 2005, the Corporation adopted the Canadian Institute of Chartered Accountants' Accounting Guideline 18 for investment companies. As a result, the investments of the Corporation are recorded at fair value on the balance sheet and the unrealized gains in investments are recorded in the statement of operations. For the year ended December 31, 2005, included in income is a \$61,129 unrealized gain in marketable securities and a \$6,975,030 unrealized gain on the NYSE Seats. In 2004, the marketable securities were recorded at market value (on the basis of the accounting policy being to record at the lower of cost and market) and the NYSE Seats were recorded at cost.