

URBANA CORPORATION

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE For the year ended December 31, 2006

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.

This management report of fund performance follows the disclosure requirements of NI 81-106. It contains financial highlights but does not contain the complete financial statements of Urbana Corporation (“Urbana”). You can get a copy of the annual financial statements at your request, and at no cost, by calling the corporation collect at (416) 595-9106, writing to us at: 150 King St. W., Suite 1702, Toronto, Ontario M5H 1J9 or visiting our website at www.urbanacorp.com or the SEDAR website at 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.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and 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 activities of Urbana are handled by Caldwell Investment Management Ltd. (“CIM” or the “Investment Manager”). 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.

At the present time, Urbana has focused its efforts on acquiring interests in exchange properties for long-term gains. Management of Urbana (“Management”) has identified securities and derivatives exchange properties around the world as good long-term investments due to the trend of demutualization in, and consolidation of, the exchange industry. Management also believes that exchanges are a way to participate in a regional economy as regional economic success is eventually reflected in the region’s stock (cash) market. Urbana has purchased units in the Caldwell Growth Opportunities Trust in order

to augment indirectly its New York Stock Exchange (the “NYSE”) position as well as to participate indirectly in the Chicago Board Options Exchange (the “CBOE”).

The creation of publicly-traded securities and derivatives exchanges is still a relatively new phenomenon. While some exchanges have transformed themselves into public companies, the industry still includes numerous private companies and mutually-owned, not-for-profit entities. In addition, many publicly-traded exchanges have not consummated proposed mergers (for example, NYSE and Euronext) and as a consequence, have not yet obtained the efficiencies expected to be derived from these combinations. Management anticipates that the consolidation trend will continue and that other mergers are likely to take place over the coming years. Management believes that this may allow the Investment Manager to leverage its demonstrated expertise in this sector.

Management and the Investment Manager believe that the four primary growth drivers for the exchange sector are as follows:

Trading Volume

Technology and trading participants (hedge funds and algorithmic trading in addition to traditional investors) are substantially increasing trading volumes on the world’s major exchanges. Management believes that the size and sustainability of these volume increases are not yet appreciated by the market.

Margin Expansion

Efficiencies are obtained through the divestment of non-core assets (e.g., the regulatory function) and replacing or updating legacy trading systems (e.g. floor trading) with new technologies, which drive improved margins. In the past, trade completions were fulfilled in minutes. They are now measured in a diminishing number of milliseconds. At the corporate level, the for-profit disciplines, now being implemented at many exchanges, are forcing a culture change, which is reflected in improving margins.

Proprietary Products

Exchanges are striving to obtain proprietary products to trade on their specific venue. This trend is fuelling acquisitions of derivative exchanges (options and futures) by stock (cash) markets. Derivative markets have greater proprietary trading attributes and as a consequence, greater profit margins than stock markets. Trading volumes at derivative exchanges are also growing at a faster rate.

Product Pricing

A readjustment of pricing to more accurately reflect the economic value of trading, listing and data services is also fuelling growth. Data and information, the value of which was not previously captured by private exchanges, have become significant revenue generators for public exchanges. Hedge and algorithmic traders rely significantly on historical information to develop their trading parameters and are willing to pay for such information. News services augment the increasing demand for information. Over time, data and information can grow to become a major income stream for exchanges.

Management believes that the combination of these factors will continue to be significant drivers for revenue growth and increasing profitability in the industry for the foreseeable future.

Urbana maintains the flexibility to invest across a wide spectrum of investment possibilities in other industries. Other areas of opportunity, such as publicly or privately traded securities or other assets, may be pursued from time to time. In order to minimize the impact of taxes on the corporation, to add to future performance and to expand its portfolio holdings, Urbana may use leverage that will not exceed 100% of the net asset value of the corporation.

Investment Management Team

Profiles of the key personnel at the Investment Manager are as follows:

Thomas S. Caldwell, C.M., B.Comm. Hons-Economics, FCSI, Portfolio Manager

Thomas S. Caldwell is Chairman of Caldwell Financial Ltd. and its subsidiary companies Caldwell Asset Management Inc., Caldwell Securities Ltd. (which he founded in 1980) and the Investment Manager. Mr. Caldwell is a Member of the Board of Associates of the Whitehead Institute for Biomedical Research (MIT) Boston. He is a former Governor of the Toronto Stock Exchange, a Fellow of the Canadian Securities Institute and a past Director of the Investment Dealers Association of Canada.

Mr. Caldwell graduated with an Honours Degree in Economics from McGill University in 1965. His career in the investment industry commenced a year prior, at Royal Securities Corporation. Upon graduation, he rejoined that company and remained after its purchase by Merrill Lynch and managed all institutional equity trading in Canada. In 1975, Mr. Caldwell joined a predecessor firm of BMO Nesbitt Burns Inc. as a Senior Investment Advisor.

Brendan T.N. Caldwell, B.Sc., M.A., FCSI, CFA, Portfolio Manager

Brendan T.N. Caldwell is President and CEO of the Investment Manager and Executive Vice-President of Caldwell Financial Ltd.

Mr. Caldwell earned his B.Sc. from Trinity College at the University of Toronto and his M.A. from the University of London, England. He has held the designation of Chartered Financial Analyst since 1995. Mr. Caldwell is a member of the Toronto Society of Financial Analysts, the CFA Institute and is a Fellow of the Canadian Securities Institute.

Mr. Caldwell worked for a major mutual fund company and a bank-controlled investment firm prior to joining Caldwell in 1995.

Mr. Caldwell has been a member of the Toronto Stock Exchange, the NYSE, the American Stock Exchange and the CBOE.

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 institutional and private clients. Mr. Callander is a Chartered Financial Analyst.

J. Dennis Freeman, Portfolio Manager

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.

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.

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 of the Investment Manager which include monitoring the overall universe of securities followed by the Investment Manager.

Jennifer Radman, Analyst, CFA, Associate Portfolio Manager

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. Ms. Radman is responsible for the Investment Manager's proprietary computer model portfolios.

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.

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

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.

Results of Operations

Urbana's net shareholders' equity grew from \$11,334,873 at the end of 2005 to \$26,917,127 at the end of 2006, an increase of \$15,582,254. Of this increase, \$13,682,254 was the result of the corporation's operations and \$1,900,000 was additional capital raised through the issuance of one million common shares in August 2006. The proceeds of the additional capital were primarily used to fund the purchase of a seat in the Chicago Board Options Exchange. There were no material changes in Urbana's investment holdings or investment style over the year, with the predominant position being our interest in the New York Stock Exchange. In March 2006, the New York Stock Exchange was merged with Archipelago Inc. to form NYSE Group, Inc. Seats of the former New York Stock Exchange were exchanged for NYSE Group, Inc. common shares. The three NYSE seats held by Urbana were exchanged for 254,097 common shares of NYSE Group, Inc. As at December 31, 2006, the market value of these shares was \$28,313,335 in total with a total acquisition cost of \$5,751,720.

As at year end, Urbana also held 49,440 units of Caldwell Opportunities Growth Trust. This position was taken with a view of both adding to the corporation's NYSE participation as well as obtaining ownership interests in Chicago Board Options Exchange memberships and other exchanges. The value of that position as at year end was \$1,070,603 with an acquisition cost of \$602,669.

Recent Developments

On January 11, 2007 Urbana completed a short form prospectus offering (the "Offering") of 16,129,100 units of the corporation (the "Units") at a price of \$3.10 per Unit for a gross proceeds of \$50,000,210. Each Unit consisted of one non-voting Class A share ("Non-Voting Class A Shares") and one-half of one Non-Voting Class A Share purchase warrant (each whole Non-Voting Class A Share purchase warrant, a "Warrant"). Each Warrant entitles the holder to purchase one Non-Voting Class A Share at a price of \$3.75 on or before January 11, 2009. The Units were separated into Non-Voting Class A Shares and Warrants immediately upon the completion of the Offering. As a result of the completion of the Offering, the corporation issued 16,129,100 Non-Voting Shares and 8,064,550 Warrants.

In connection with the Offering, the syndicate of agents for the Offering (the "Agents") was granted the option to purchase, within 30 days of the completion of the Offering (the "Over-Allotment Option"), up to an additional 2,419,000 Non-Voting Class A Shares at a price of \$3.05 per share and up to an additional 1,209,500 Warrants at a price of \$0.05 per each half Warrant. On January 29, 2007, the Agents exercised the Over-Allotment Option in full for a gross proceeds of \$7,498,900 to Urbana. As a result of the full exercise of the Over-Allotment Option, Urbana issued an additional 2,419,000 Non-Voting Class A Shares and 1,209,500 Warrants. The Non-Voting Class A Shares and the Warrants are listed and traded on the Toronto Stock Exchange along with Urbana's common shares.

In January 2007 Urbana entered into agreements to purchase a seat on the Chicago Board Option Exchange ("CBOE"), a seat on the Kansas City Board of Trade ("KCBOT") subject to the KCBOT board approval, and two board lots of shares (formerly seats) of the Philadelphia Stock Exchange ("PSE"). Urbana also purchased one seat on the American Stock Exchange ("AMEX") and shares of the London Stock Exchange ("LSE"), Singapore Exchange Ltd. ("SGX"), the Hong Kong Exchange & Clearing Ltd. ("HKEX") and the stock exchange of South Africa ("JSE"). The foregoing represents combined expenditures and commitments of approximately \$8,700,000.

In February 2007 Urbana agreed to purchase an additional seat on the CBOE for \$1,875,000 and one seat on the Minneapolis Grain Exchange ("MGEX") for approximately \$ 103,900 subject to the MGEX board approval. The MGEX is the principal market for hard red spring wheat. Urbana also purchased 200 shares of the Osaka Stock Exchange Co. Ltd. ("OSEC") for approximately \$1,269,000.

The CBOE, KCBOT, PSE, AMEX and the MGEX are private entities and the LSE, SGX, HKEX, JSE and OSEC are publicly traded entities.

Related Party Transactions

Caldwell Financial Ltd. (“CFL”) is a significant shareholder of Urbana and under common management. Caldwell Asset Management Inc. (“CAM”), Caldwell Investment Management Ltd. (“CIM”) and Caldwell Securities Ltd. (“CSL”) are subsidiaries of CFL. In 2006 and 2005 investment management and performance fees of \$342,298 and \$6,274 were paid to CIM and CAM. In 2006 and 2005 premises were rented from CSL and CAM for \$55,000 and \$96,300, and are included in administrative expenses. In 2006 and 2005 consulting fees of \$90,000 and \$87,500 were received from CIM. Interest paid to CFL in respect of a loan payable in 2006 and 2005 amounted to \$70,212 and \$56,576. In August 2006, CFL purchased 200,000 common shares of Urbana in a private placement at a price of \$2.00 per share. As at December 31, 2006, Urbana held 49,440 units of Caldwell Growth Opportunities Trust, which is also managed by CIM. There is no duplication of management fees with respect to these units.

FINANCIAL HIGHLIGHTS

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

Urbana’s Net Asset Value (NAV) per Share⁽¹⁾	2006	2005
Net asset value, beginning of year	\$ 1.26	\$ 0.71
Realized gains/losses for the year	0.02	(0.02)
Investment income for the year	0.04	0.04
Total expenses for the year, including future taxes	(0.37)	(0.13)
Unrealized gains for the year	1.78	0.66
Net asset value, end of year ⁽²⁾	2.69	1.26

(1) Net asset value is 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.

(2) This is not a reconciliation of beginning and ending net asset value per share.

Ratios and Supplemental Data	2006	2005
Net Investment Assets ⁽¹⁾	\$31,687,653	\$13,463,668
Shares outstanding ⁽¹⁾	10,000,000	9,000,000
Management Expense Ratio ⁽²⁾	4.60% ⁽³⁾	3.25%
Portfolio Turnover Ratio ⁽⁴⁾	10.17%	0.15%
Trading Expense Ratio ⁽⁵⁾	0.00%	0.07%
Closing Market Price	\$3.00	\$2.00

- (1) This information is provided as at December 31 of the year shown.
- (2) The Management Expense Ratio is based on total expenses for the stated period and is expressed as an annualized percentage of weekly average net assets during the period.
- (3) In 2006, Urbana incurred \$67,113 of legal fees for activities related to capital financing and the application for graduation from the TSX Venture Exchange to the Toronto Stock Exchange. Since this was a one-time, out of the ordinary course of business expense, it is not included in the calculation of the Management Expense Ratio. If it had been included in the calculation of the Management Expense ratio, the ratio would have been 4.93%.
- (4) Urbana's turnover rate indicates how actively the corporation's investment manager manages its liquid 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.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

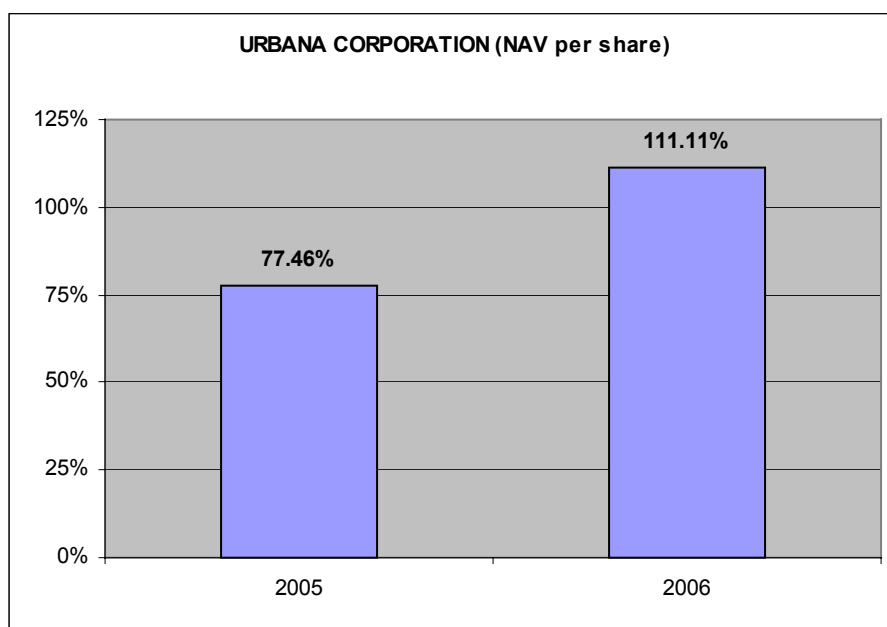
Management Fees

Investment management fees are charged for portfolio management services in accordance with an investment management agreement with CIM. Effective as of May 1, 2006, 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. Out of the investment management fees, CIM pays for certain administrative services including brokerage fees for the purchase and sale of securities, maintaining financial and corporate records, calculating the net asset value of the corporation and regulatory filings. In 2006, investment management fees of \$342,298 were paid to CIM. The investment management fees are accrued and paid quarterly in arrears.

PAST PERFORMANCE

Year-by-Year Returns

The following bar chart shows the performance of Urbana for the financial year indicated. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year based on the net asset value (NAV) per share of the corporation. Past performance is not an indication of how the corporation will perform in the future.



Annual Compound Returns

The following table shows Urbana's historical returns on its common shares for the periods indicated, compared with the S&P/TSX Composite Index.

	1 year	2 year and since inception⁽¹⁾
Urbana Corporation (NAV)	111.11%	93.56%
Urbana Corporation (Market)	50.00%	57.67%
S&P/TSX Composite Index ⁽²⁾	17.26%	20.66%

(1) Inception date is January 1, 2005, being the first day of the financial year in which Urbana became an investment fund.

(2) The S&P/TSX Composite Index is a market capitalization-weighted index that provides a broad measure of performance of the Canadian equity market.

SUMMARY OF INVESTMENT PORTFOLIO
As at December 31, 2006

Number of Shares/Units	Description	Cost	Market Value	% of Portfolio Mkt Value	% of Total Net Asset Value before Tax
254,097	NYSE Group, Inc. common shares	\$ 5,751,720	\$ 28,313,335	89.34%	93.09%
49,440	Caldwell Growth Opportunities Fund	602,669	1,070,603	3.38%	3.52%
1	Chicago Board Options Exchange	1,465,230	2,039,275	6.43%	6.70%
4,000	Montreal Exchange	264,440	264,440	0.83%	0.87%
72	Resource Claims - Urban Township	1,094,038	1	0.00%	0.00%
	Cash	2,931	2,931	0.01%	0.01%
	Total	\$ 9,181,028	\$ 31,690,585		

The above summary of the investment portfolio may change. A quarterly update is available at Urbana's website at www.urbanacorp.com

[This Page Intentionally Left Blank]