URBANA
CORPORATION

2012

2012 ANNUAL REPORT

Corporate Information

EXECUTIVE OFFICE:

150 King Street West
Suite 1702, Toronto, Ontario
M5H 1J9
Telephone: (416) 595-9106
Facsimile: (416) 862-2498

TRANSFER AGENT & REGISTRAR:

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700
Station B
Montreal, QC
H3B 3K3

AUDITORS: DELOITTE & TOUCHE LLP

Brookfield Place
181 Bay Street
Suite 1400
Toronto, Ontario M5J 2V1

INDEPENDENT REVIEW COMMITTEE:

Robert Guilday, Chair
Sharon Kent
F. Michael Walsh

DIRECTORS & OFFICERS OF THE COMPANY:

Thomas S. Caldwell, C.M.
Director and President
Toronto, Ontario

Bethann Colle
Director
Toronto, Ontario

George D. Elliott
Director
Toronto, Ontario

Michael B.C. Gundy
Director
Toronto, Ontario

George M. Mencke
Director
Toronto, Ontario

Jean Ponter
Chief Financial Officer

Harry K. Liu
Corporate Secretary

Urbana Corporation's Common Shares and Non-Voting Class A Shares are listed for trading on the Toronto Stock Exchange.
Ticker Symbols:
URB (Common Shares)
URB.A (Non-Voting Class A Shares)

Website: www.urbanacorp.com

URBANA REPORT TO SHAREHOLDERS

2012 marked the long awaited turn around in the securities exchange sector. This group lagged the financial services area as a whole as a result of the hyper-competition introduced by regulators some years ago.

Although net asset growth of 9.4% was adequate for the calendar year 2012, the positive story extended from year end to the date of this writing with a six month return of 33.54% (based on net asset value). This reflected a market bounce off the lows of 2012 and two take-over offers – NYSE Euronext ("NYX") and the Kansas City Board of Trade ("KCBT"). A weakening Canadian dollar relative to the U.S. dollar also helped.

During the above noted period the share price moved up 50% off an $0.80 low to a current $1.20 per share price. We have tendered all of our KCBT shares and reduced some of our NYX holdings. The funds were used to reduce our bank loan, repurchase "A" shares, purchase additional shares in public financial services companies and add to our private investment holdings.

Going forward, our portfolio will be comprised of public and private investments, with some emphasis on, but not restricted to, financial services. Our goal is to build the asset base of Urbana Corporation, but we will continue to reduce the "A" shares outstanding under a Normal Course Issuer Bid ("NCIB"). Under our current authorization to purchase approximately 6 million shares, we have retired roughly 2 million shares. The NCIB authorization continues until August 2013, at which time we will re-apply for the next twelve month period. To date, we have purchased over 20 million shares under this program.

In regard to the share price discount from asset value per share, we see this as an opportunity for both existing shareholders (the NCIB program enhancing asset value per share) and new investors (an opportunity to own the underlying investment at a significant discount). Although it would be desirable to narrow the discount at some point, it is not currently the primary focus of management. Our current goal is to build the assets of the company.

With our major holdings, beyond NYX (25% of assets), we continue to maintain a position in the Chicago Board Options Exchange (“CBOE”) (37% of assets). This is the largest and most profitable options exchange in America. Although rumours abound regarding a possible takeover, we would be pleasantly surprised if indeed that were to occur. In the interim, the CBOE’s share price continues to work its way higher. We may lighten small amounts in the near term as other opportunities present themselves.

The Bombay Stock Exchange (“BSE”) (13% of assets) continues to slowly move toward an initial public offering (“IPO”). Management has committed to this course of action before year-end, but India is fraught with delays and surprises – usually government initiated. Urbana will be required to hold its BSE shares for one year after the IPO.

On our sell list we have both the Budapest Stock Exchange (1.4% of assets) and the Minneapolis grain Exchange (1.9% of assets).

A current investment in the private area exemplifies our style in this sector. Our investment in the Canadian National Stock Exchange (“CNSX”) approximates $5 million. This is a containable risk amount for Urbana and should the strategy of building an “Exchange for Entrepreneurs” work, this investment could provide a multiple times return.

In the area of public holdings, we still maintain a positive market outlook. This view is based upon:

1) A slowly growing U.S. economy.
2) Low interest rates.
3) Low inflation.
4) The U.S. housing turn-around
5) A wall of cash built up with the banking system, which will eventually work its way into the “real” economy.
6) Funds flowing out of fixed income into equities.
7) A declining U.S. dollar encouraging both job creation and the repatriation of U.S. manufacturing.

Our corporate goal will continue to be a balance of liquid and private equity investments. Within the latter, we will combine high risk, containable exposure with high return potential.

Finally, I would like to thank George Mencke, who is retiring from the Board this year, for his hard work and service to Urbana Corporation since 2007. George was a great help to all of us as Lead Director and head of the Audit Committee.

We would like to thank our shareholders for their loyalty over the past years and welcome any inquiries you may have in the future at tcaldwell@caldwellsecurities.com.

Please also refer to our website www.urbanacorp.com as we strive to keep it current for all of our investors.

On behalf of the Board of Directors,

Thomas S. Caldwell, C.M.
President and C.E.O.

March 12, 2013

URBANA CORPORATION

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

For the year ended December 31, 2012

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 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.

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 increased from $126,668,573 at the end of 2011 to $129,073,024 at the end of 2012, an increase of $2,404,451. Net Assets (as described in note 10 to the audited annual financial statements) per common share was $1.86 as at December 31, 2012 compared to $1.70 as at December 31, 2011, representing a increase of 9.41%. 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 2012 was $5,143,548 as compared to $4,218,426 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. During 2012, Urbana realized a loss of $15,940,920 from the sales and dispositions of investments as compared to a loss of $8,465,055 in 2011. A major portion of the loss in 2012 was a result of the sale of 512,648 NYSE Euronext shares. Investment management fees for 2012 decreased by $505,076 (2012 - $2,225,650 and 2011 - $2,730,726) as a result of a decreased investment portfolio. In 2012, foreign withholding tax increased by $158,480 (2012 - $615,737 and 2011 - $457,257) as a result of higher U.S. dividend income for the year. Transaction costs increased by $691,356 (2012 - $819,495 and 2011 - $128,139) due to increased trading activity and the acquisition of private investments in 2012.

Urbana's operations in 2012 resulted in a net gain of $7,302,418 (a net loss of $15,508,622 before net unrealized gain on foreign exchange and investments, non-controlling interests and income taxes) as compared to a net loss of $13,591,825 (a net loss of $8,806,152 before the specified items) in 2011.

Normal Course Issuer Bid

On August 27, 2012 the Toronto Stock Exchange (the "TSX") accepted Urbana's notice of intention to conduct a normal course issuer bid to purchase up to 5,989,230 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, 2012, and will terminate on the earlier of August 28, 2013, 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 1,207,501 Non-Voting Class A Shares, being 2% of the 60,375,067 issued and outstanding Non-Voting Class A Shares as at

August 19, 2012 (the date on which the notice was filed). As at December 31, 2012, Urbana has purchased 796,067 Non-Voting Class A Shares pursuant to the NCIB. These shares were purchased on the open market at an average purchase price of $0.88 per share. Previously, the TSX 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, August 28 2010 to August 27, 2011 and August 29, 2011 to August 28, 2012 ("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, 7,431,300 Non-Voting Class A Shares at $1.27 per share and 6,636,033 Non-Voting Class A Shares at $1.01 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, 2012, the outstanding balance of the loan was $0 (2011 - $13,600,000) which is the fair value of the loan.

Acquisitions and Dispositions of Investments

During 2012, Urbana made the following significant acquisitions and dispositions of investments:

Acquisitions

Investment	Quantity	Type of Investments	Cost($)
2232057 Ontario Inc. (Investment in StoneCap Securities Inc.)	349,532	shares	177,831
Bank of America Corp.	590,000	shares	6,006,066
Caldwell Financial Ltd.	759,000	shares	1,707,750
CBOE Holdings Inc.	13,182	shares	350,404
Citigroup Inc.	180,000	shares	6,647,429
CNSX Markets Inc.	6,838,906	shares	2,451,672
iCanTrade Corp.	6,000	shares	150,000
Jovian Capital Corp.	68,700	shares	568,994
Manulife Financial Corporation	60,000	shares	739,600
TMX Group Inc.	13,393	shares	589,134
Sun Life Financial Inc.	30,000	shares	623,716
Various Horizons Beta Pro Funds	769,000	units	6,649,773

Dispositions

Investment	Quantity	Type of Investment	Proceeds($)
TMX Group Inc.	163,393	shares	7,566,219
Bank of America Corp.	90,000	shares	701,219
CBOE Holdings Inc.	128,182	shares	3,447,422

Citigroup Inc.	30,000	shares	853,060
Kansas City Board of Trade	11	seats	8,381,917
NYSE Euronext	512,648	shares	14,973,018
Various Horizons Beta Pro Funds	799,000	units	6,970,529

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.

Related Party Transactions

Caldwell Financial Ltd. ("CFL"), a company under common management with Urbana, is the parent company of the Investment Manager, Caldwell Investment Management Ltd. ("CIM"). In 2012 and 2011, investment management fees of $2,225,650 and $2,730,726 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, 2011 - $nil). As at December 31, 2012 there was an investment management fee payable of $534,565 (December 31, 2011 – $652,232) to CIM. There were no other fees payable to related parties as at December 31, 2012.

On June 20, 2012, Urbana purchased from a director of CFL and the chairman of the board of Urbana, respectively 38,938 and 661,062 common shares of CFL. August 1, 2012, Urbana purchased an additional 59,000 common shares of CFL from an employee of CFL. All of these CFL shares were purchased at a price of $2.25 per share at a total cost of $1,707,750. The price paid was based on the fair valuation of CFL as conducted by an independent valuator. In total, these CFL shares represents 15.58% of the total outstanding common shares of CFL. A special committee of the board of directors of Urbana was appointed and chaired by an independent director, Mr. George D. Elliott, to oversee and make recommendations to the board regarding this transaction. Mr. Elliott received compensation of $25,000 for the extensive time and effort he spent in his role as the chairman of this special committee.

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.

Urbana's Net Assets per Share[1 & 2]					
	2012	**2011**	**2010**	**2009**	**2008**
Net assets, beginning of year	1.70	1.83	2.00	$2.05	$3.37
Realized gain(loss) for the year	(0.22)	(0.11)	(0.07)	(0.05)	(0.05)
Unrealized gain(loss) for the year	0.38	(0.09)	(0.22)	(0.00)	(1.52)
Total Investment income for the year	0.08	0.06	0.09	0.08	0.07
Total expenses for the year, including future taxes[3], and non-controlling interest portion of gain/loss	(0.06)	(0.01)	(0.02)	(0.05)	(0.08)
Distributions	Nil	Nil	Nil	Nil	Nil
Net assets, end of year[4]	1.86	1.70	1.83	2.00	2.05

(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 10 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.

	2012	**2011**	**2010**	**2009**	**2008**
Total net asset value(000's)[1]	$129,073	$126,669	$148,103	$174,683	$158,821
Shares outstanding[1]	69,579,000	74,408,000	81,066,100	87,526,320	77,100,000
Management expense ratio excluding share issuance costs[2]	3.45%	3.20%	2.76%	2.94%	2.77%
Management expense ratio including share issuance costs	3.45%	3.20%	2.76%	4.32%	2.77%
Management expense ratio excluding share issuance costs before waivers or absorptions	3.45%	3.20%	2.76%	2.94%	3.03%
Portfolio turnover ratio[3]	21.65%	5.56%	7.21%	2.23%	5.22%
Trading expense ratio[4]	0.63%	0.08%	0.44%	0.00%	0.08%
Net asset value per share	$1.86	$1.70	$1.83	$2.00	$2.06
Closing market price (common)	$1.00	$0.89	$1.29	$1.51	$1.51
Closing market price (Class A)	$0.97	$0.89	$1.23	$1.48	$1.35

(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.

Management Fees

Investment management fees are charged for portfolio management services in accordance with an investment management agreement with CIM. Pursuant to a fund management and portfolio management agreement effective as of August 1, 2011 between Urbana and CIM, CIM is entitled to an investment management fee equal to 1.5% per annum of the market value of Urbana's investment portfolio. Prior to August 1, 2011, CIM charged an investment management fee equal to 1.5% 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 Urbana's investment portfolio. During the year ended December 31, 2012, CIM earned $2,225,650 investment management fees from Urbana and absorbed no expenses related to Urbana. The investment management fees are accrued and paid quarterly in arrears.

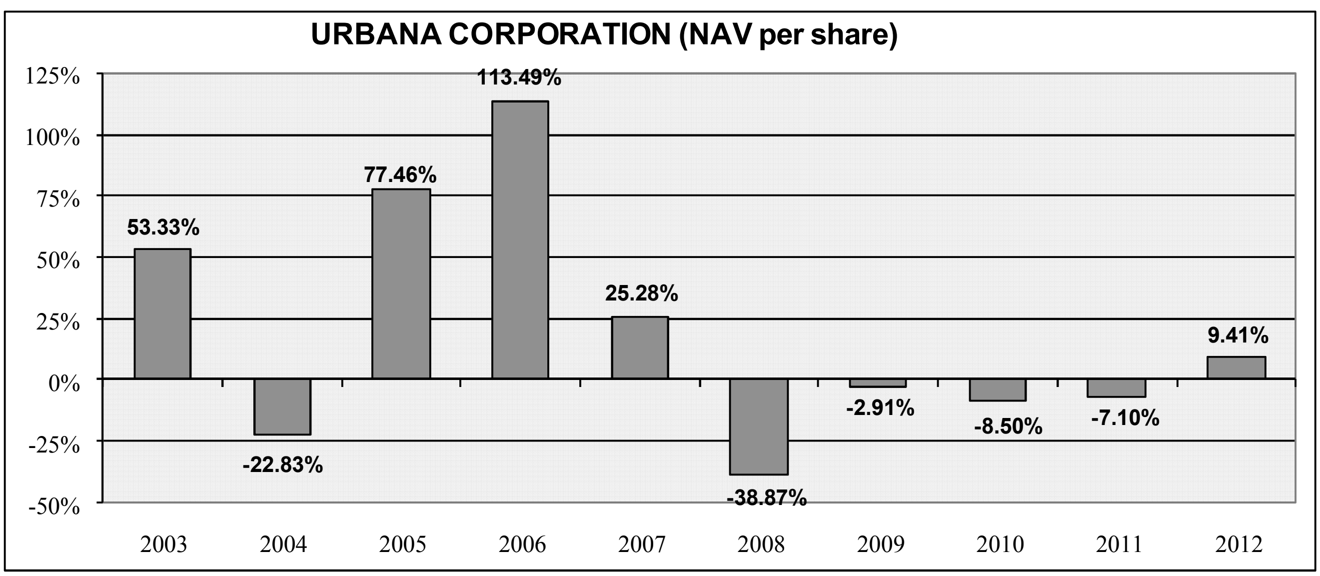
PAST PERFORMANCE

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 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 Urbana. All net asset value returns are calculated based on Urbana's Net Asset Values (as opposed to Net Assets).

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.

Annual Compound Returns

The following table shows Urbana's historical annual compound returns for the periods indicated immediately preceding the end of the last completed financial year (December 31, 2012), compared with the S&P/TSX Composite Index.

	1 year	3 year	5 years	since inception of Class A shares(1)	since inception of common shares(1)	10 year
Urbana NAV	9.41%	-2.39%	-11.21%	-7.28%	12.79%	11.98%
Urbana Common Shares (Market)	12.36%	-12.84%	-28.63%	n/a	-0.84%	n/a
Urbana Class A Shares (Market)	8.99%	-13.91%	-28.39%	-17.23%	n/a	n/a
S&P/TSX Composite Index(2)	4.00%	1.91%	-2.11%	-0.11%	3.77%	6.52%

(1) Inception date of common shares is January 1, 2005, being the first day of the financial year in which Urbana became an investment fund. Inception date of the Non-Voting Class A Share is January 11, 2007. CIM began managing Urbana's investment portfolio on October 1, 2002.

(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
(non-consolidated)
As at December 31, 2012

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

Number of Shares, Units or Seats	Description	Cost	Fair Value	% of Portfolio Fair Value	% of Total Net Assets
Privately owned entities					
3,141,562	Bombay Stock Exchange	$32,480,863	$17,054,044	12.68%	13.17%
7,151,406	CNSX Markets Inc. common stock	3,701,672	2,860,562	2.13%	2.21%
27	Minneapolis Grain Exchange	6,585,622	2,688,390	2.00%	2.08%
169,341	Budapest Stock Exchange	4,761,242	2,000,693	1.49%	1.54%
759,000	Caldwell Financial Ltd.	1,707,750	1,631,850	1.21%	1.26%
2,674,532	2232057 Ontario Inc. [1]	2,502,451	1,144,958	0.85%	0.88%
Publicly traded securities					
1,485,000	CBOE Holdings Inc.	49,099,552	43,530,411	32.36%	33.61%
1,300,000	NYSE Euronext	82,547,888	40,812,747	30.34%	31.51%
500,000	Bank of America Corp.	5,348,381	5,780,038	4.30%	4.46%
150,000	Citigroup Inc.	5,714,771	5,911,471	4.39%	4.56%
60,000	Manulife Financial Corp.	739,600	808,800	0.60%	0.62%
30,000	Sun Life Financial Inc.	623,716	790,200	0.59%	0.61%
10,000	TMX Group Inc.	424,015	507,000	0.38%	0.39%
68,500	Jovian Capital Corp.	567,349	428,810	0.32%	0.33%
8,000	Argent Energy Trust	74,400	73,680	0.05%	0.06%

Other					
2,500,000	2232057 Ontario Inc. Unsecured subordinated loan[1]	2,500,000	2,500,000	1.86%	1.93%
	Cash and Cash Equivalents	5,997,296	5,997,296	4.46%	4.63%
	Total	$205,376,568	$134,520,950	100.00%	103.87%

1. Investments in StoneCap Securities Inc.

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

Audited consolidated financial statements of

Urbana Corporation

December 31, 2012 and 2011

Urbana Corporation
December 31, 2012 and 2011

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Deloitte.

Deloitte LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Urbana Corporation

We have audited the accompanying consolidated financial statements of Urbana Corporation, which comprise the consolidated statements of net assets and investment portfolio as at December 31, 2012 and 2011, and the consolidated statements of operations, changes in net assets and (deficit), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Urbana Corporation as at December 31, 2012 and 2011, and the results of its operations, changes in net assets and (deficit) and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
February 27, 2013

Urbana Corporation

Consolidated statements of net assets as at December 31, 2012 and 2011

In Canadian $

	2012	2011
	$	$
Assets		
Cash and cash equivalents	5,997,296	2,708,145
Investments, at fair value (Note 2)	137,562,048	143,332,542
Sundry receivables	25,892	91,496
Prepaid expenses	30,202	34,963
Income taxes (Note 11)	-	5,000,000
	143,615,438	151,167,146
Liabilities		
Loan payable (note 5)	-	13,600,000
Accounts payable and accrued liabilities	4,923,559	864,947
	4,923,559	14,464,947
Non-controlling interest (Note 4)	9,618,855	10,033,626
Net assets	129,073,024	126,668,573
Shareholders' equity		
Share capital (Note 6)	180,237,972	194,414,090
Contributed surplus (Note 7)	47,323,015	38,044,864
Deficit	(98,487,963)	(105,790,381)
Shareholders' equity representing net assets	129,073,024	126,668,573
Total liabilities and shareholders' equity	143,615,438	151,167,146
Number of shares outstanding (Note 6)	69,579,000	74,408,000
Net assets per share - basic and diluted	1.86	1.70

Approved by the Board:

Director

Director

See accompanying notes.

Urbana Corporation

Consolidated statements of operations
for the years ended December 31, 2012 and December 31, 2011

In Canadian $

	2012	2011
	$	$
Gains/losses		
Loss on sale and disposal of investments	(15,940,920)	(8,465,055)
Investment income		
Dividends	5,143,548	4,218,426
Interest	251,658	251,000
Gain (loss) on foreign exchange	276	(16,047)
	5,395,482	4,453,379
Expenses		
Investment management fees (Note 9)	2,225,650	2,730,726
Interest	755,909	823,773
Foreign withholding taxes	615,737	457,257
Administrative	304,067	413,035
Transaction costs	819,495	128,139
Audit fees	117,425	105,075
Director fees	47,511	49,065
Shareholder reporting costs	30,650	41,514
Insurance	25,777	30,777
Legal fees	13,177	8,656
Independent Review Committee fees	6,156	4,727
License fees	1,630	1,732
	4,963,184	4,794,476
Net (loss) gain before unrealized net loss (gain) on foreign exchange and investments, non-controlling interest and income taxes	(15,508,622)	(8,806,152)
Change in unrealized net (loss) gain on foreign exchange and investments	27,396,269	(6,692,697)
Net income (loss) before non-controlling interest and income taxes	11,887,647	(15,498,849)
Non-controlling interest portion of loss	414,771	4,407,024
Net (loss) income before income taxes	12,302,418	(11,091,825)
Provision for income taxes (Note 11)		
Current	-	-
Future	(5,000,000)	(2,500,000)
	(5,000,000)	(2,500,000)
Total results of operations for the year	7,302,418	(13,591,825)
Basic and diluted income (loss) per share	0.10	(0.18)
Weighted average number of shares outstanding	71,337,987	77,641,285

See accompanying notes.

Urbana Corporation

Consolidated statements of changes in net assets and (deficit)
for the years ended December 31, 2012 and December 31, 2011

In Canadian $

	2012	2011
	$	$
Net assets		
Shareholders' equity representing net assets,		
beginning of year	126,668,573	148,097,106
Operating activities		
Total results of operations for the year	7,302,418	(13,591,825)
Capital transactions (Notes 6 and 7)		
Normal course issuer bid repurchases payments	(4,897,967)	(7,836,708)
Net assets, end of year	129,073,024	126,668,573
(Deficit)		
(Deficit), beginning of year	(105,790,381)	(92,198,556)
Total results of operations for the year	7,302,418	(13,591,825)
Deficit, end of year	(98,487,963)	(105,790,381)

See accompanying notes.

Urbana Corporation

Consolidated statements of cash flows
for the years ended December 31, 2012 and December 31, 2011

In Canadian $

	2012	2011
	$	$
Operating activities		
Total results of operations for the year	7,302,418	(13,591,825)
Items not affecting cash		
Loss on sale and disposal of investments	15,940,920	8,465,055
Unrealized net gain (loss) on foreign exchange and investments	(27,396,269)	6,692,697
Non-controlling interest portion of loss	(414,771)	(4,407,024)
Provision for future income taxes	5,000,000	2,500,000
	432,298	(341,097)
Net change in non-cash working capital items		
Sundry receivables	65,604	102,554
Prepaid expenses	4,761	633
Accounts payable and accrued liabilities	4,058,612	36,403
	4,128,977	139,590
Cash flow (used in) from operating activities	4,561,275	(201,507)
Financing activities		
Proceeds from loan payable	-	145,000
Repayments of loan payable	(13,600,000)	-
Normal course issuer bid repurchases payments	(4,897,967)	(7,836,708)
Cash flow (used in) from financing activities	(18,497,967)	(7,691,708)
Investing activities		
Purchases of investments	(26,765,283)	(8,458,349)
Proceeds on sale of investments	43,991,126	14,771,874
Cash flow from (used in) investing activities	17,225,843	6,313,525
Net change in cash during the year	3,289,151	(1,579,690)
Cash and cash equivalents, beginning of year	2,708,145	4,287,835
Cash and cash equivalents, end of year	5,997,296	2,708,145
Supplemental disclosure		
Amount of interest paid	824,326	807,618

See accompanying notes.

Urbana Corporation

Consolidated statements of investment portfolio
as at December 31, 2012

In Canadian $

Number of shares	Description	Cost	2012 Fair value
		$	$
	Privately owned entities		
4,806,544	Bombay Stock Exchange (shares held by CIHI and UMI)	50,520,683	26,092,438
7,151,406	CNSX Markets Inc. common stock	3,701,672	2,860,562
27	Minneapolis Grain Exchange (seats)	6,585,622	2,688,390
169,341	Budapest Stock Exchange (shares)	4,761,242	2,000,693
759,000	Caldwell Financial Ltd.	1,707,750	1,631,850
2,674,532	2232057 Ontario Inc. (Investment in StoneCap Securities Inc.)	2,502,451	1,144,958
6,000	iCanTrade Corp.	150,000	-
1,201,727	2232057 Ontario Inc., Warrants	-	-
		69,929,420	36,418,891
	Publicly traded securities		
1,485,000	CBOE Holdings Inc.	49,099,552	43,530,411
1,300,000	NYSE Euronext	82,547,888	40,812,747
150,000	Citigroup Inc.	5,704,536	5,911,471
500,000	Bank of America Corp.	5,342,130	5,780,038
60,000	Manulife Financial Corp.	739,600	808,800
30,000	Sun Life Financial Inc.	623,716	790,200
10,000	TMX Group Inc.	424,015	507,000
68,500	Jovian Capital Corp.	567,349	428,810
8,000	Argent Energy Trust	74,400	73,680
		145,123,186	98,643,157
	Other		
2,500,000	2232057 Ontario Inc. *	2,500,000	2,500,000
		2,500,000	2,500,000
		217,552,606	137,562,048

* The Company holds a unsecured subordinated promissory note with a current yield of 10% and a maturity date of March 12, 2013.

** In addition, the Company holds 24,683 of Bermuda Stock Exchange (shares) which have been written off.

Urbana Corporation
Consolidated statements of investment portfolio
as at December 31, 2011
In Canadian $

Number of shares	Description	Cost	2011 Fair value
		$	$
	Privately owned entities		
4,806,544	Bombay Stock Exchange (shares held by CIHI and UMI)	50,520,683	27,656,854
11	Kansas City Board of Trade (seats)	5,948,450	5,376,360
169,341	Budapest Stock Exchange (shares)	4,761,242	3,357,629
27	Minneapolis Grain Exchange (seats)	6,585,622	2,914,232
2,325,000	2232057 Ontario Inc. (Investment in StoneCap Securities Inc.)	2,324,620	1,935,883
312,500	CNSX Markets Inc. common stock	1,250,000	1,250,000
		71,390,617	42,490,958
	Publicly traded securities		
1,812,648	NYSE Euronext	115,100,204	48,173,522
1,600,000	CBOE Holdings Inc.	52,991,293	42,131,112
160,000	TMX Group Inc.	6,269,638	6,670,400
30,000	Horizons BetaPro S&P/TSX Global Gold Bullion Plus	400,193	348,300
		174,761,328	97,323,334
	Other		
2,500,000	2232057 Ontario Inc. *	2,500,000	2,500,000
2,000,000	Arzak Global Securities Loan. **	2,053,600	1,018,250
		4,553,600	3,518,250
		250,705,545	143,332,542

* The Company holds a unsecured subordinated promissory note with a current yield of 10% and a maturity date of March 12, 2013.

** The Company made a loan to Arzak Global AGI Limited in the amount of US$2 million, with a fixed 10% interest rate per annum, and maturity date of May 21, 2012.

*** In addition, the Company holds 24,683 of Bermuda Stock Exchange (shares) which have been written off.

See accompanying notes.

Urbana Corporation ("Urbana" or the "Company") is an investment company originally incorporated as a mineral exploration company named Macho River Gold Mines Limited under the Companies Act (Ontario) on August 25, 1947. A change of business application from a mining issuer to an investment issuer was approved by the TSX Venture Exchange in July, 2005. The Company is now considered a "non-redeemable investment fund" and an "investment fund" for the purposes of applicable securities laws and is listed on the Toronto Stock Exchange ("TSX").

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.

1. Summary of significant accounting policies

These consolidated financial statements of Urbana have been prepared by management in accordance with Part V Canadian generally accepted accounting principles ("GAAP"). The following is a summary of significant accounting policies followed by the Company in the preparation of the financial statements.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the reporting period. Actual results could differ from those estimates. Significant estimates included in the financial statements relate to the valuation of level 3 investments and realization of the future income tax asset.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, its 58.54% (2011- 58.54%) owned subsidiary, Caldwell India Holdings Inc., and its wholly owned subsidiaries. All inter-company transactions have been eliminated.

Capital management

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 Capital Disclosures requires the disclosure of information that enables users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital.

Foreign exchange

The monetary assets and liabilities of the Company's integrated foreign subsidiaries are translated into Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average exchange rates for the year. Foreign exchange gains and losses are included in the statement of operations for the year.

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Purchases and sales of investments, investment income and expenses are calculated at the exchange rates prevailing on the dates of the transactions.

Financial instruments

The Company's financial instruments are comprised of cash, investments, prepaid expenses, income taxes, sundry receivables, loan payable and accounts payable and accrued liabilities.

The carrying values of cash, sundry receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term maturities. The carrying value of loan payable approximates its fair value as the interest rate on the loan is variable. Investments are classified as held-for-trading financial instruments, and as such, are recorded at fair value. Unrealized gains and losses on investments are recognized in the consolidated statements of operations.

1. Summary of significant accounting policies (continued)

Valuation of investments

Investments are valued at fair value. The securities which are actively traded are valued at the closing bid price on the recognized stock exchange on which the securities are listed or principally traded.

The Minneapolis Grain Exchange ("MGEX") and the Kansas City Board of Trade ("KCBT") are valued based on the current price of a seat, as quoted by the respective exchanges.

Securities which are listed on a stock exchange or traded over-the-counter and which are subject to a hold period or other trading restrictions are valued as described above, with an appropriate discount as determined by management.

Investments for which reliable quotations are not readily available, or for which there is no closing bid price, including securities of private issuers, are valued at fair value using management's best estimates. A number of valuation methodologies are considered in arriving at fair value, including comparable company transactions, earnings multiples, the price of a recent investment, net assets, discounted cash flows, industry valuation benchmarks and available market prices. During the initial period after an investment has been made, cost translated using the year end foreign currency exchange rate may represent the most reasonable estimate of fair value.

The Company takes its own credit risk and the risk of its counterparties into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Management has reviewed its policies concerning valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in the Company's financial statements incorporate appropriate levels of credit risk.

There are inherent uncertainties in the process of valuing investments for which there are no published markets. As such, the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

Fair Value Hierarchy

The Company classifies fair value measurements based on a three-level hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Refer to Note 2 for the classification of the fair value measurements.

Transaction costs

Transaction costs are expensed and are included in "Transaction costs" in the Consolidated statements of operations. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The cost of investments for each security is determined on an average basis.

1. Summary of significant accounting policies (continued)

Resource properties

Urbana has owned resource properties in Urban Township, Quebec for a number of years. Accounting Guideline 11 in the Canadian Institute of Chartered Accountants handbook provides that when there has been a delay in development activity that extends beyond three years, there is a presumption that a write-down of capitalization costs is necessary. Accordingly, in 2005 management wrote down the capitalized costs of the resource properties to a nominal value. In 2010, the capitalized costs of the resource properties were written off. Management is not aware of any significant exploration activity on the properties in recent years. Management monitors the exploration activity in the area on an ongoing basis and may carry out exploration work on its resource properties if and when it is deemed suitable.

Future income taxes

The Company accounts for income taxes using the liability method, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted income tax rates and laws that are expected to be in effect when the differences are expected to reverse. Income tax expense for the year is the tax payable for the year and any change during the year in the future tax assets and liabilities. A valuation allowance is provided to the extent that it is more likely than not that future tax assets will not be realized.

Investment transactions and income recognition

Investment transactions are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Realized gains and losses from investment transactions and unrealized appreciation or depreciation of investments are calculated on an average cost basis.

Earnings per share

Basic earnings per share is computed by dividing the total results of operations for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares, which are included when the conditions necessary for issuance have been met. Diluted earnings per share reflects the assumed conversion of all dilutive securities using the “treasury stock” method for purchase warrants and stock options.

2. Fair value measurement

Fair value measurements of the investments are classified based on a three-level hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are described below:

Level 1 — Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

2. Fair value measurement (continued)

The following is a summary of the Company's investments categorized in the fair value hierarchy as at December 31, 2012 and December 31, 2011:

				December 31, 2012
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	5,997,296	-	-	5,997,296
Publicly traded securities	98,643,157	-	-	98,643,157
Privately owned entities	-	2,688,390	33,730,501	36,418,891
Other	-	-	2,500,000	2,500,000
	104,640,453	2,688,390	36,230,501	143,559,344

				December 31, 2011
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Cash	2,708,145	-	-	2,708,145
Publicly traded securities	97,323,334	-	-	97,323,334
Privately owned entities	-	8,290,592	34,200,366	42,490,958
Other	-	-	3,518,250	3,518,250
	100,031,479	8,290,592	37,718,616	146,040,687

During the year ended December 31, 2012 and December 31, 2011 the reconciliation of investments measured at fair value using unobservable inputs (Level 3) are presented as follows:

December 31, 2012	Privately owned entities	Other	Total
	$	$	$
Beginning balance	34,200,366	3,518,250	37,718,616
Purchases	4,487,253	-	4,487,253
Sales	-	(2,053,600)	(2,053,600)
Change in unrealized (losses)	(4,957,118)	1,035,350	(3,921,768)
Transfers	-	-	-
Ending balance	33,730,501	2,500,000	36,230,501

December 31, 2011	Privately owned entities	Other	Total
	$	$	$
Beginning balance	48,841,305	3,750,000	52,591,305
Purchases	124,620	2,053,600	2,178,220
Sales	(4,433,518)	-	(4,433,518)
Change in unrealized (losses)	(11,582,041)	(1,035,350)	(12,617,391)
Transfers	1,250,000	(1,250,000)	-
Ending balance	34,200,366	3,518,250	37,718,616

For the year ended December 31, 2012, there were no transfers in/out of Level 3 investments. There were no sales and transfers into/out of Level 3 investments for the year ended December 31, 2011. The potential impact of using reasonable possible alternative assumptions for valuing the two biggest holdings that are classified as Level 3 financial instruments would increase or decrease their fair value by up to $ 2.3 million (December 31, 2011 - $2.4 million). The major assumption relating to this sensitivity calculation relates to the multiple used to value the entities based on earnings and the increase/decrease was calculated based on increasing the multiple by plus/minus one.

3. Financial instruments and risk management

The Company's activities expose it to a variety of financial risks. Management seeks to minimize potential adverse effects of these risks on the Company's performance by employing professional, experienced portfolio advisors, and through daily monitoring of the Company's position and market events.

Credit risk

Credit risk represents the potential loss that the Company would incur if the counterparties failed to perform in accordance with the terms of their obligations to the Company. The Company maintains all of its cash and cash equivalents at its custodian or in overnight deposits with a Canadian chartered bank. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. As at December 31, 2012,the Company had $2.5 million (December 31, 2011 - $3.5 million) in debt instruments. The fair value of the debt instruments includes a consideration of the credit worthiness of the debt issuer. The carrying amount of investments and other assets represent the maximum credit exposure as disclosed in the statements of net assets.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligation when due. The Company's obligations are due within one year. As at December 31, 2012, the Company had a demand loan for $Nil (December 31, 2011 - $13,600,000), representing 0% (December 31, 2011 – 10.74%) of net assets. Liquidity risk is managed by investing in assets that are traded in an active market and can be readily sold or by borrowing under its credit facility (note 5). The Company's common shares and Class A shares cannot be redeemed by shareholders. The Company endeavors to maintain sufficient liquidity to meet its expenses.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar. The Company is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. When the value of the Canadian dollar falls in relation to foreign currencies, then the value of foreign investment rises. When the value of the Canadian dollar rises, the value of foreign investment falls.

The table below indicates the currencies to which the Company had significant exposure as at December 31, 2012 and December 31 2011.

	December 31, 2012	December 31, 2011
Currency	**As % of net assets**	As % of net assets
	%	%
United States Dollars	76.49	80.14
Indian Rupee	20.22	21.83
Other	1.55	2.65
	98.26	104.62

The Company's net assets would decrease or increase by approximately $6,340,809 (December 31, 2011 - $6,626,174) in response to a 5% appreciation or depreciation of the Canadian dollar, with all other variables held constant. In practice, the actual results may differ materially.

3. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments such as loans payable. The Company is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. There is a reduced risk to interest rate changes for cash and cash equivalents due to their short-term nature.

The table below summarizes the Company's exposure to interest rate risks by remaining term to maturity.

	Less than 1 year	1 – 3 years	3 – 5 Years	Over 5 years	Total
	$	$	$	$	$
Financial asset - bonds					
December 31, 2012	-	2,500,000	-	-	2,500,000
December 31, 2011	-	3,518,250	-	-	3,518,250
Loan payable					
December 31, 2012	-	-	-	-	-
December 31, 2011	13,600,000	-	-	-	13,600,000

As at December 31, 2012, had prevailing interest rates increased or decreased by 1%, with all other variables held constant, the results of operations would have decreased or increased, respectively, by approximately $ Nil (December 31, 2011 - $164,250). In practice, the actual results may differ materially.

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. Any equity and derivative instrument that the Company may hold is susceptible to market price risk arising from uncertainties about future prices of the instruments. Management moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

The most significant exposure for the Company to other price risk arises from its investment in publicly and privately traded securities. As at December 31, 2012, for publicly traded securities, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately $9,864,316 (December 31, 2011 - $9,732,333) (approximately 7.64 % (December 31, 2011 – 7.68%) of total net assets). In practice, the actual results may differ materially. Management is unable to meaningfully quantify any correlation of the price of its privately owned equities to changes in a benchmark index.

Capital management

Management manages the capital of the Company which consists of the net assets, in accordance with the Company's investment objectives. The Company is not subject to any capital requirements imposed by a regulator. The Company must comply with the covenants on the loan payable (Note 5).

4. Subsidiaries

Caldwell India Holdings Inc.

During 2007, the Company subscribed for 100 common shares, at US$1 per share, for Caldwell India Holdings Inc. ("CIHI"). CIHI then issued 4,051,300 investor shares (non-voting) at US$10 per share of which the Company subscribed for 2,400,000, representing 59.24% of the issued share capital of CIHI. The total proceeds for the CIHI shares issued were $44,843,950, of which the Company provided $26,565,556. The remaining $18,278,394 which is owned by other investment funds managed by Caldwell Investment Management Ltd. was accounted for as a non-controlling interest. CIHI used the proceeds of the share issuance to purchase 308,888 equity shares of the Bombay Stock Exchange ("BSE"). In 2010, the Company sold 28,507 investor shares of CIHI with a cost base of $306,045 for cash proceeds of $248,676. Consequently, the Company's investment in CIHI represents a 58.54% interest in the issued share capital of CIHI.

Non-controlling interest consists of the following:

	Year ended December 31, 2012	Year ended December 31, 2011
	$	$
Non-controlling interest, beginning of year	10,033,626	14,440,650
Share of net (loss)	(414,771)	(4,407,024)
Non-controlling interest, end of year	9,618,855	10,033,626

Urbana Mauritius Inc.

In June 2009, Urbana set up a wholly owned subsidiary in Mauritius, Urbana Mauritius Inc. ("UMI"), to facilitate future investments in India. As at December 31, 2012, UMI owns 791,000 (December 31, 2011 - 791,000) equity shares of the BSE.

5. Loan payable

On February 19, 2008, the Company entered into a demand loan facility with the Bank of Montreal. In July 2009 the loan facility agreement was amended to allow the Company to borrow up to $15,000,000 from the Bank of Montreal at any given time. Interest is charged on the outstanding balance of the loan facility at 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 the Company's assets and allows the Company to purchase additional interests in public and/or private exchanges around the world. As at December 31, 2012, the outstanding balance of the loan was $Nil (December 31, 2011 - 13,600,000) which is the fair value of the loan. As at December 31, 2012, the Company has complied with all covenants, conditions or other requirements of the outstanding debt.

6. Share capital

At December 31, 2012 share capital consists of the following:

	Number	Year ended December 31, 2012 Amount	Number	Year ended December 31, 2011 Amount
		$		$
Authorized				
Unlimited preferred shares				
Unlimited common shares				
Unlimited non-voting fully participating Class A shares				
Issued - common shares				
Balance, beginning of year	10,000,000	7,998,893	10,000,000	7,998,893
Issued during the year	-	-	-	-
Balance, end of year	10,000,000	7,998,893	10,000,000	7,998,893
Issued - non-voting Class A shares				
Balance, beginning of year	64,408,000	186,415,197	71,066,100	205,685,645
Normal Course Issuer Bid Redemption (a)	(4,829,000)	(14,176,118)	(6,658,100)	(19,270,448)
Balance, end of year	59,579,000	172,239,079	64,408,000	186,415,197
Total	69,579,000	180,237,972	74,408,000	194,414,090

a) On August 27, 2012 the Toronto Stock Exchange (“TSX”) accepted Urbana’s notice of intention to conduct a normal course issuer bid to purchase up to 5,989,230 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, 2012, and will terminate on the earlier of August 28, 2013, 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 1,207,501 Non-Voting Class A Shares, being 2% of the 60,375,067 issued and outstanding Non-Voting Class A Shares as at August 19, 2012 (the date on which the notice was filed). As at December 31, 2012, Urbana has purchased 796,067 Non-Voting Class A Shares pursuant to the NCIB. These shares were purchased on the open market at an average purchase price of $0.88 per share. Previously, the TSX 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, August 28 2010 to August 27, 2011 and August 29, 2011 to August 28, 2012 (“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, 7,431,300 Non-Voting Class A Shares at $1.27 per share and 6,636,033 Non-Voting Class A Shares at $1.01 per share.

7. Contributed surplus

	2012	2011
	$	$
Balance, beginning of year	38,044,864	26,611,124
Normal course issuer bid repurchase discount (note 6 (a))	9,278,151	11,433,740
Balance, end of year	47,323,015	38,044,864

8. Series B Class A purchase warrants

A summary of the Series B warrants are presented below:

	Number of warrants	2012 Weighted Average exercise price	Number of warrants	2011 Weighted average exercise price
		$		$
Outstanding, January 1	-	-	5,345,750	2.50
Expired, November 10, 2011	-	-	(5,345,750)	2.50
Outstanding, December 31	-	-	-	-

9. Related party transactions

Caldwell Financial Ltd ("CFL") and Urbana are under common management. Caldwell Investment Management Ltd. ("CIM") is a subsidiary of CFL.

Pursuant to a fund management and portfolio management agreement effective as of August 1, 2011 between the Company and CIM, the investment manager, CIM is entitled to an investment management fee equal to 1.5% per annum of the market value of the Company's investment portfolio. Prior to August 1, 2011, CIM charged an investment management fee equal to 1.5% per annum of the market value of the equity securities in the Company's investment portfolio and 0.50% of the market value of the fixed income securities in the Company's investment portfolio. The investment management fees are accrued and paid quarterly in arrears. In the year ended December 31, 2012 and December 31, 2011, investment management fees of $2,225,650 and $2,730,726 respectively were earned by CIM. For the years ended December 31, 2012 and December 31, 2011, CIM did not reimburse any expenditures relating to the Company.

Included in accounts payable and accrued liabilities are investment management fees of $534,565 (2011 - $652,232) payable to CIM. There are no other fees payable to related parties. All related party transactions are recorded at their exchange amounts.

10. Net asset value and net assets

In calculating net assets ("Net Assets") for financial reporting purposes, the Company must comply with Canadian GAAP and these rules require the use of the bid price for securities purchased long and ask price for securities sold short, where the securities are traded in an active market.

The Canadian securities regulatory authorities have published amendments to NI 81-106, in final form, that remove the requirement that net asset value be calculated in accordance with Canadian GAAP (other than in financial statements). As a result, the net asset value of investment funds (other than in financial statements) will continue to be calculated using the fair value of the assets and liabilities of the investment funds, as calculated by applying the close or last trade price to obtain securities values ("Net Asset Value").

As a result, the Company's investment valuations are different for weekly net asset value calculation and for financial statements purposes. The Net Asset Value per share and Net Assets per share is presented as follows:

	Net asset value per share	Net assets per share
	$	$
As at December 31, 2012	1.86	1.86
As at December 31, 2011	1.70	1.70

11. Income taxes

The Company's provision for income taxes for the year ended December 31, 2012 and for the year ended December 31, 2011 is summarized as follows:

	2012	**2011**
	$	$
Net (loss) income before income taxes	12,302,418	(11,091,825)
Expected income taxes payable at future rates - 25%	3,075,605	(2,772,956)
Income tax effect of the following:		
Non-taxable portion of realized capital transactions losses	1,992,615	1,058,132
Non-taxable portion of unrealized capital losses	(3,424,534)	836,587
Non-controlling interest	(103,693)	(1,101,756)
Valuation allowance	3,600,000	4,000,000
Other	(139,993)	479,993
	5,000,000	2,500,000

The components of the Company's future income tax (asset) are as follows:

	2012	2011
	$	$
Resource deductions available in perpetuity	(13,703)	(13,703)
Unrealized capital losses on investments	(5,752,656)	(6,459,275)
Share issuance costs	-	(38,856)
Tax losses	(707,932)	(1,362,806)
Tax benefit of non-capital loss carryforwards (expiring 2031)	(1,121,686)	(1,190,904)
Valuation allowance	7,600,000	4,000,000
Other	(4,023)	65,544
	-	(5,000,000)

12. Future changes in accounting standards

International Financial Reporting Standards ("IFRS")

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 results 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.

URBANA
CORPORATION

150 King Street W., Suite 1702, Toronto, Ontario M5H 1J9 Tel: 416-595-9106 Fax: 416-862-2498
www.urbanacorp.com