

Audited Financial Statements of

**Urbana Corporation**

December 31, 2016 and December 31, 2015

# Urbana Corporation

December 31, 2016 and December 31, 2015

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## Independent Auditor's Report

To the Shareholders of Urbana Corporation

We have audited the accompanying financial statements of Urbana Corporation, which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Urbana Corporation as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



# Urbana Corporation

## Statements of financial position

as at December 31, 2016 and December 31, 2015

(In Canadian dollars)


	December 31, 2016	December 31, 2015
	\$	\$
<b>Assets</b>		
Cash	386,699	345,723
Investments, at fair value (Notes 2 and 3)	259,611,829	195,274,320
Accounts and other receivables (Note 4)	143,210	83,967
Current income taxes	-	87,515
	<b>260,141,738</b>	<b>195,791,525</b>
<b>Liabilities</b>		
Loan payable (Note 6)	11,800,000	5,500,000
Accounts payable and accrued liabilities (Notes 5 and 9)	1,330,936	927,846
Deferred income tax liability (Note 10)	10,334,000	3,320,000
	<b>23,464,936</b>	<b>9,747,846</b>
<b>Shareholders' equity</b>		
Share capital (Note 8)	131,913,662	133,432,271
Contributed surplus	67,335,274	66,889,412
Retained earnings (deficit)	37,427,866	(14,278,004)
Shareholders' equity representing net assets	<b>236,676,802</b>	<b>186,043,679</b>
Total liabilities and shareholders' equity	<b>260,141,738</b>	<b>195,791,525</b>
<b>Number of shares outstanding (Note 8)</b>	<b>52,863,200</b>	<b>53,388,500</b>

See accompanying notes

Approved by the Board



Director



Director

# Urbana Corporation

## Statements of comprehensive income

for the years ended December 31, 2016 and December 31, 2015

(In Canadian dollars)

	2016	2015
	\$	\$
Revenue		
Net realized gain on sale and disposal of investments	9,436,266	9,650,495
Net change in unrealized gain on investments	55,662,240	3,172,813
Dividends	2,391,819	3,622,177
Interest revenue	88,206	101,841
	<b>67,578,531</b>	16,547,326
Expenses		
Investment management fees (Note 9)	3,513,461	3,338,609
Interest	359,281	281,290
Administrative (Note 9)	1,354,543	976,597
Transaction costs (Note 9)	559,487	505,584
Professional fees	795,979	275,094
Other tax adjustments	-	324,939
	<b>6,582,751</b>	5,702,113
Net income before income taxes	<b>60,995,780</b>	10,845,213
(Recovery of) current income taxes (Note 10)	-	(87,515)
Foreign withholding tax expense (recovery) (Note 10)	(393,528)	164,160
Provision for deferred income taxes (Note 10)	7,014,000	450,000
Income tax expense	<b>6,620,472</b>	526,645
<b>Total profit and comprehensive income for the year</b>	<b>54,375,308</b>	10,318,568
<b>Basic and diluted earnings per share</b>	<b>1.02</b>	0.19
<b>Weighted average number of shares outstanding</b>	<b>53,076,669</b>	55,332,500

See accompanying notes

# Urbana Corporation

## Statements of changes in equity

for the years ended December 31, 2016 and December 31, 2015

(In Canadian dollars)

	Share capital	Contributed surplus	Retained earnings/ (deficit)	Total
	\$	\$	\$	\$
Balance at January 1, 2015	145,457,987	63,396,249	(21,719,144)	187,135,092
Total profit for the year	-	-	10,318,568	10,318,568
Dividends paid	-	-	(2,877,428)	(2,877,428)
Normal course issuer bid repurchases	(12,025,716)	3,493,163	-	(8,532,553)
Balance at December 31, 2015	133,432,271	66,889,412	(14,278,004)	186,043,679
<b>Balance at January 1, 2016</b>	<b>133,432,271</b>	<b>66,889,412</b>	<b>(14,278,004)</b>	<b>186,043,679</b>
<b>Total profit for the year</b>	<b>-</b>	<b>-</b>	<b>54,375,308</b>	<b>54,375,308</b>
<b>Dividends paid</b>	<b>-</b>	<b>-</b>	<b>(2,669,438)</b>	<b>(2,669,438)</b>
<b>Normal course issuer bid repurchases</b>	<b>(1,518,609)</b>	<b>445,862</b>	<b>-</b>	<b>(1,072,747)</b>
<b>Balance at December 31, 2016</b>	<b>131,913,662</b>	<b>67,335,274</b>	<b>37,427,866</b>	<b>236,676,802</b>

See accompanying notes

# Urbana Corporation

## Statements of cash flows

for the years ended December 31, 2016 and December 31, 2015

(In Canadian dollars)

	2016	2015
	\$	\$
<b>Operating activities</b>		
Total profit for the year	54,375,308	10,318,568
Items not affecting cash		
Gain on sale and disposal of investments	(9,900,395)	(9,650,495)
Net change in unrealized gain on investments	(55,662,240)	(3,172,813)
Provision for deferred income taxes	7,014,000	450,000
Purchases of investments	(65,346,846)	(48,657,991)
Proceeds on sale of investments	66,571,972	59,780,209
	(2,948,201)	9,067,478
Net change in non-cash working capital items		
Accounts and other receivables	(59,243)	(35,630)
Current income taxes	87,515	(87,515)
Accounts payable and accrued liabilities	403,090	(58,661)
	431,362	(181,806)
Cash provided by (used in) operating activities	(2,516,839)	8,885,672
<b>Financing activities</b>		
Issuance of loan payable	53,200,000	46,100,000
Repayment of loan payable	(46,900,000)	(44,150,000)
Dividends paid	(2,669,438)	(2,877,428)
Normal course issuer bid repurchases	(1,072,747)	(8,532,553)
Cash provided by (used in) financing activities	2,557,815	(9,459,981)
Net change in cash during the year	40,976	(574,309)
Cash, beginning of year	345,723	920,032
<b>Cash, end of year</b>	<b>386,699</b>	<b>345,723</b>
<b>Supplemental disclosure</b>		
Income taxes paid	-	87,515
Interest paid	359,281	281,290

See accompanying notes

# Urbana Corporation

## Schedule of investment portfolio as at December 31, 2016

(In Canadian dollars)

Number	Description	Cost	Fair value
	<b>Privately owned entities</b>	\$	\$
2,350,563	Caldwell India Holdings Inc.(i)	25,599,727	17,371,898
791,000	Urbana Mauritius Inc. (ii)	7,312,848	6,025,177
11,684,403	Canadian Securities Exchange (formerly CNSX)	5,829,521	10,515,963
32	Minneapolis Grain Exchange (seats)	7,279,359	7,080,744
800,000	Caldwell Financial Ltd. (Note 9)	1,826,650	2,432,000
5,000,040	Radar Capital Fund 1 Limited Partnership (iii) (Note 9)	4,683,729	7,235,338
300,000	Radar Capital Fund II Series F Limited Partnership (Note 9)	3,000,000	3,000,000
6,209,431	Real Matters Inc.	12,179,624	32,599,513
50	Radar Capital Inc. (Note 9)	50	50
3,000,000	Highview Investments Limited Partnership	3,000,000	3,000,000
3,000,000	Four Lakes Capital Fund Limited Partnership	3,000,000	3,300,600
406,066	Caldwell Growth Opportunities Trust (iv) (Note 9)	3,400,000	4,374,225
100	Urbana Special Investment Holdings Ltd. (v)	2,894,499	3,352,413
340,884	Highview Financial Holdings Inc.	207,518	194,304
24,683	Bermuda Stock Exchange	533,099	73,816
		80,746,624	100,556,041
	<b>Publicly traded securities</b>		
150,000	CBOE Holdings Inc.	4,959,550	14,863,528
150,000	Intercontinental Exchange Group Inc.	6,230,769	11,349,306
250,000	Citigroup Inc.	11,699,826	19,924,650
975,000	Bank of America Corp.	13,600,935	28,896,275
375,000	Suncor Energy	12,777,151	16,462,500
350,000	Barrick Gold Corp.	6,174,997	7,517,899
330,000	Teck Resources Ltd. Class B	2,355,863	8,867,100
100,000	Canadian Imperial Bank of Commerce	9,032,380	10,956,000
480,000	Morgan Stanley	13,312,369	27,196,494
400,000	Deutsche Bank AG	8,983,403	9,709,202
28,500	Industrial Alliance Insurance and Financial Services	1,586,025	1,521,615
		90,713,268	157,264,569
	<b>Other</b>		
1,500,000	Highview Financial Holdings Inc. (vi)	1,500,000	1,500,000
100,000	Highview Financial Holdings Inc. (vii)	100,000	100,000
1,300,000	Radar Capital Inc. (viii)	1,300,000	191,219
		2,900,000	1,791,219
		174,359,892	259,611,829

(i) Urbana owns 58.54% of the outstanding investor shares of Caldwell India Holdings Inc. ("CIHI"), which holds 2,007,772 equity shares (previously 4,015,544 equity shares prior to a 2:1 consolidation) of the Bombay Stock Exchange. Urbana also owns 100 voting ordinary shares of CIHI representing 100% of the ordinary shares. The fair value of these ordinary shares is nominal.

(ii) Urbana Mauritius Inc., which is a wholly-owned subsidiary of Urbana, holds 395,500 equity shares (previously 791,000 equity shares prior to a 2:1 consolidation) of the Bombay Stock Exchange.

(iii) Radar Capital Fund 1 Limited Partnership owns 24% of the debt and equity of Highview Financial Group.

(iv) Caldwell Growth Opportunities Trust owns 24% of the equity shares of CIHI and 8% of the units of Radar Capital Fund 1 Limited Partnership.

(v) Urbana Special Investment Holdings Ltd., which is a wholly-owned subsidiary of Urbana, holds 51.44262 equity shares of OneChicago LLC.

(vi) Urbana holds an unsecured promissory note repayable on April 22, 2017 with a semi-annual interest payment of 83,853 common shares.

(vii) Urbana holds an unsecured promissory note repayable on April 22, 2017 with a semi-annual interest payment of 12,000 common shares.

(viii) Urbana holds an unsecured promissory note which is non-interest bearing and due on demand.

In addition to the investments listed above, Urbana holds 44 mining claims in Urban Township, Quebec. Mining expenditures of \$464,129 (2015 - \$180,003) have been recorded as a loss in realized gain on sale and disposal of investments.



# Urbana Corporation

## Notes to the financial statements

### for the years ended December 31, 2016 and 2015

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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. As a result of the change, the Company was considered an investment fund for the purposes of applicable securities laws.

On July 13, 2015, shareholders voted in favour of a resolution which reclassified the Company from an investment fund to a non-investment fund (the “Reclassification”). As a result of the Reclassification, Urbana is no longer an investment fund for securities law purposes.

The Company’s common and Class A shares are listed for trading on the Toronto Stock Exchange (“TSX”) and the Canadian Securities Exchange (“CSE”). Its registered head office is Box 47, 150 King Street West, Suite 1702, Toronto, Ontario, M5H 1J9.

The long-term strategy of Urbana is to continue to seek and acquire investments for income and capital appreciation.

#### 1. Summary of significant accounting policies

##### *Basis of presentation*

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) and as required by Canadian securities legislation and the Canadian Accounting Standards Board.

The Company qualifies as an investment entity under IFRS 10, *Consolidated Financial Statements*.

##### *Statement of compliance*

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

##### *Judgments and estimates*

The preparation of financial statements in conformity with IFRS 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 period. Actual results could differ from those estimates. Significant judgments and estimates included in the financial statements relate to the valuation of level 3 investments and realization of the deferred income tax liability.

##### Classification and measurement of investments

In classifying and measuring financial instruments held by the Company, Urbana is required to make significant judgments about whether or not the business of the Company is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39 *Financial Instruments – Recognition and Measurement*. The most significant judgments made include the determination whether certain investments are held-for-trading and that the fair value option can be applied to those which are not.

##### Valuation of investments

Investments are measured at fair value in accordance with IFRS 13 *Fair Value Measurement*. Publicly traded securities are valued at the close price on the recognized stock exchange on which the securities are listed or principally traded, provided the close price is within the bid-ask spread.

The Minneapolis Grain Exchange (“MGEX”) is valued based on the current price of a seat, as quoted by the exchange.

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 1. Summary of significant accounting policies (continued)

#### *Judgments and estimates (continued)*

##### Valuation of investments (continued)

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 period end foreign currency exchange rate may represent the most reasonable estimate of fair value. Unrealized gains and losses on investments are recognized in the Statements of Comprehensive Income.

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. Management uses various valuation techniques with unobservable market inputs in its determination of fair value of private investments, those most significant of which are disclosed in Note 2. Management exercises judgment in the determination of certain assumptions about market conditions existing at the date of the financial statements in the application of the chosen valuation techniques. 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.

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

##### Mining Claims

In accordance with IFRS 6, *Exploration for and evaluation of mineral resources*, Urbana has elected to expense exploration and evaluation costs given that its mineral claims hold no known proven reserves or resources.

#### *Segmented information*

The Company is organized as one main operating segment, namely the management of the Company's investments in order to achieve the Company's investment objectives.

#### *Functional and presentation currency*

The Company considers its functional and presentation currency to be the Canadian dollar, which is the currency of the primary economic environment in which it operates. The Company's performance is evaluated and its liquidity is managed in Canadian dollars.

#### *Foreign currency translation*

The monetary assets and liabilities of the Company are translated into Canadian dollars, the Company's functional currency, at exchange rates in effect at the date of the statement of financial position. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in the Statements of Comprehensive Income for the year. Purchases and sales of investments, investment income and expenses are calculated at the exchange rates prevailing on the dates of the transactions.

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 1. Summary of significant accounting policies (continued)

#### *Financial instruments*

The Company's financial instruments are comprised of cash and cash equivalents, investments, accounts and other receivables, loan payable, and accounts payable and accrued liabilities. The Company recognizes financial instruments at fair value upon initial recognition.

Investments have been designated at fair value through profit or loss ("FVTPL") with gains and losses recorded in net income. Cash and cash equivalents, accounts and other receivables are recorded as loans and receivables and are carried at amortized cost. Loan payable and accounts payable and accrued liabilities are recorded as other financial liabilities and are carried at amortized cost. The carrying values approximate their fair values due to their short-term maturities.

#### *Transaction costs*

Transaction costs are expensed as incurred and are included in "Transaction costs" in the Statements of Comprehensive Income. 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.

#### *Deferred income taxes*

The Company accounts for income taxes using the liability method, whereby deferred 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 period is the tax payable for the period and any change during the period in the deferred tax assets and liabilities. A valuation allowance is provided to the extent that it is not probable that deferred tax assets will 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 net gain or loss on foreign exchange and investments are calculated on an average cost basis.

#### *Earnings per share*

Basic earnings per share is computed by dividing the total profit 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.

#### *Interests in Other Entities*

The table below presents the unconsolidated subsidiaries of the Company as at December 31, 2016 and 2015:

<b>Subsidiary's Name</b>	<b>Place of Business</b>	<b>% of Equity Interest held by Urbana</b>	<b>% of Voting Rights held by Urbana</b>
Caldwell India Holdings Inc.	Mauritius	58.84%	100%
Urbana Mauritius Inc.	Mauritius	100%	100%
Urbana Special Investment Holdings Ltd.	Toronto	100%	100%

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 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; and

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

The following is a summary of the Company's investments categorized in the fair value hierarchy as at December 31, 2016:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Publicly traded securities	157,264,569	-	-	157,264,569
Privately owned entities	-	7,080,744	93,475,297	100,556,041
Other	-	-	1,791,219	1,791,219
	157,264,569	7,080,744	95,266,516	259,611,829

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

### 2. Fair value measurement (continued)

Level 2 and 3 valuation methods – December 31, 2016

Description	Fair value (1)	Primary Valuation technique used	Significant unobservable inputs	Input/Range (2)
<b>Private equity investments</b>				
Caldwell India Holdings Inc. – holder of Bombay Stock Exchange seats	<b>17,371,898</b>	Analysis of comparable exchanges	P/E multiple	20.6-43.3
Urbana Mauritius Inc. – holder of Bombay Stock Exchange seats	<b>6,025,177</b>	Analysis of comparable exchanges	P/E multiple	20.6-43.3
Bermuda Stock Exchange	<b>73,816</b>	Analysis of comparable exchanges	P/E multiple	16.9-30.5
Urbana Special Investment Holdings Ltd.	<b>3,352,413</b>	Weighted average of discounted cash flow, and Average P/E multiple	Discount rate Average P/E multiple	12.74% LTM P/E: 10.1-254.8 (3) NTM P/E: 11.3-44.0 (4)
Caldwell Financial Ltd.	<b>2,432,000</b>	Prescribed formula in shareholder's agreement	1 x net fees plus share capital	N/A
CNSX Markets Inc.	<b>10,515,963</b>	Market transaction	Recent transaction price	N/A
Caldwell Growth Opportunities Trust	<b>4,374,225</b>	Net asset value per unit	Net asset value per unit	N/A
Highview Financial Holdings Inc.	<b>194,304</b>	EV as a % of AUM (5) EV as a % of AUA (6)	EV as a % of AUM EV as a % of AUA	1.0%-4.0% 0.5%
Real Matters Inc.	<b>32,599,513</b>	Market transaction	Recent transaction price	N/A
Radar Capital Fund 1 Limited Partnership	<b>7,235,338</b>	Net asset value per unit	Net asset value per unit	N/A
Radar Capital Fund II Series F Limited Partnership	<b>3,000,000</b>	Net asset value per unit	Net asset value per unit	N/A
Minneapolis Grain Exchange (seats)	<b>7,080,744</b>	Market transaction	Recent transaction price	N/A

(1) See- Note 1 – Valuation of investments

(2) Where it is not applicable, an input or range has not been provided

(3) Last twelve months P/E: 45.99x

(4) Next twelve months P/E: 14.90x

(5) Enterprise value of assets under management

(6) Enterprise value of assets under administration

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

### 2. Fair value measurement (continued)

Level 2 and 3 valuation methods – December 31, 2016 (continued)

Description	Fair value (1)	Primary Valuation technique used	Significant unobservable inputs	Input/Range (2)
<b>Private equity investments (continued)</b>				
Highview Investments Limited Partnership	<b>3,000,000</b>	Net asset value per unit	Net asset value per unit	N/A
Four Lakes Capital Fund Limited Partnership	<b>3,300,600</b>	Net asset value per unit	Net asset value per unit	N/A
Radar Capital Inc.	<b>50</b>	N/A	N/A	N/A
<b>Private debt investments</b>				
Radar Capital Inc.	<b>191,219</b>	Cash value	N/A	N/A
Highview Financial Holdings Inc.	<b>1,500,000</b>	Face value	N/A	N/A
Highview Financial Holdings Inc.	<b>100,000</b>	Face value	N/A	N/A
<b>Ending balance</b>	<b>102,347,260</b>			

The following is a summary of the Company's investments categorized in the fair value hierarchy as at December 31, 2015:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Publicly traded securities	119,856,083	-	-	119,856,083
Privately owned entities	-	6,823,259	67,459,474	74,282,733
Other	-	-	1,135,504	1,135,504
	119,856,083	6,823,259	68,594,978	195,274,320

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

### 2. Fair value measurement (continued)

Level 2 and 3 valuation methods – December 31, 2015 (continued)

Description	Fair value (1)	Primary Valuation technique used	Significant unobservable inputs	Input/Range (2)
<b>Private equity investments</b>				
Caldwell India Holdings Inc. – holder of Bombay Stock Exchange seats	<b>16,071,074</b>	Analysis of comparable exchanges	P/E multiple	19.6-54.7
Urbana Mauritius Inc. – holder of Bombay Stock Exchange seats	<b>5,808,847</b>	Analysis of comparable exchanges	P/E multiple	19.6-54.7
Caldwell Financial Ltd.	<b>2,292,180</b>	Prescribed formula in shareholder's agreement	1 x net fees plus share capital	N/A
Minneapolis Grain Exchange (seats)	<b>6,823,259</b>	Market transaction	Recent transaction price	N/A
CNSX Markets Inc.	<b>10,515,963</b>	Market transaction	Recent transaction price	N/A
Caldwell Growth Opportunities Trust	<b>4,485,771</b>	Net asset value per unit	Net asset value per unit	N/A
Highview Financial Holdings Inc.	<b>116,896</b>	Cost	N/A	N/A
Real Matters Inc.	<b>13,200,000</b>	Market transaction	Recent transaction price	N/A
Budapest Stock Exchange	<b>2,902,844</b>	Market transaction	Recent transaction price	N/A
Radar Capital Fund 1 Limited Partnership	<b>5,550,044</b>	Net asset value per unit	Net asset value per unit	N/A
Urbana Special Investment Holdings Ltd.	<b>3,515,805</b>	Market transaction	Recent transaction price	N/A
Highview Investments Limited Partnership	<b>3,000,000</b>	Net asset value per unit	Net asset value per unit	N/A
Radar Capital Inc.	<b>50</b>	N/A	N/A	N/A
<b>Private debt investments</b>				
Radar Capital Inc.	<b>135,504</b>	Face value	N/A	N/A
Highview Financial Holdings Inc.	<b>1,000,000</b>	Face value	N/A	N/A
<b>Ending balance</b>	<b>75,418,237</b>			

(1) See- Note 1 – Valuation of investments

(2) Where it is not applicable, an input or range has not been provided

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 2. Fair value measurement (continued)

#### *Change in valuation methodology*

During the year ended December 31, 2016, the Company changed the primary valuation technique for Urbana Special Investment Holdings Ltd. from a methodology based on a recent market transaction to a weighted average of discounted cash flows and average P/E multiples. Management determined that the transaction that was used in the prior year was no longer reflective of fair value due to the passage of time.

During the years ended December 31, 2016 and 2015 the reconciliations of investments measured at fair value using unobservable inputs (Level 3) are presented as follows:

	December 31, 2016		
	Privately owned entities	Other	Total
	\$	\$	\$
Beginning balance	67,459,474	1,135,504	68,594,978
Change in unrealized gain (loss)	20,469,861	(244,285)	20,225,576
Purchases	10,307,204	900,000	11,207,204
Sales	(4,761,242)	-	(4,761,242)
Ending balance	93,475,297	1,791,219	95,266,516

	December 31, 2015		
	Privately owned entities	Other	Total
	\$	\$	\$
Beginning balance	47,086,244	2,200,000	49,286,244
Change in unrealized gain (loss)	14,658,661	(364,496)	14,794,165
Purchases	5,995,900	500,000	5,995,900
Sales	(281,331)	(1,200,000)	(1,481,331)
Ending balance	67,459,474	1,135,504	68,594,978



# Urbana Corporation

## Notes to the financial statements

### for the years ended December 31, 2016 and 2015

#### 2. Fair value measurement (continued)

##### Sensitivity analysis to significant changes in unobservable inputs within the Level 2 and 3 hierarchy

The significant unobservable inputs used in the fair value measurement categorized within Level 2 and 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at December 31, 2016 and 2015 are as shown below:

Level 2 and 3 valuation methods – December 31, 2016

Description	Input	Sensitivity used (1)	Effect on fair value (\$)
Private equity investments	P/E multiple	1X	1,041,748
	1 x net fees plus share capital	10%	243,200
	Average P/E multiple	1X	10,661
	Discount rate	1%	846,889
	Recent transaction price	10%	5,019,622
	Net asset value per unit	10%	2,091,021
	EV as a % of assets under management	1%	143,960
	EV as a % of assets under administration	1%	198,581
Private debt investments	Cash value	10%	19,122
	Face value	10%	160,000

Level 2 and 3 valuation methods - December 31, 2015

Description	Input	Sensitivity used (1)	Effect on fair value (\$)
Private equity investments	P/E multiple	1X	670,546
	1 x net fees plus share capital	10%	229,218
	Recent transaction price	10%	3,695,787
	Net asset value per unit	10%	1,303,587
	Cost	10%	11,690
Private debt investments	Face value	10%	113,540

(1) The sensitivity analysis refers to a percentage or multiple added or deducted from the input and the effect this has on the fair value while all other variables were held constant.

For the years ended December 31, 2016 and 2015, there were no transfers into/out of Level 1, Level 2 or Level 3 investments.

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 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, 2016, the Company holds approximately \$1.8 million (2015 - \$ 1.1 million) in debt instruments. The fair value of the debt instruments includes a consideration of the credit worthiness of the debt issuer and the security provided against the outstanding amount. The carrying amount of investments and other assets represent the maximum credit exposure as disclosed in the statements of financial position.

#### *Liquidity risk*

Liquidity risk is the risk that the Company may not be able to settle or meet its obligation when due. The following tables detail the Company's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay.

	<b>December 31, 2016</b>		
	<b>financial liabilities</b>		
	<b>due on demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loan payable	<b>11,800,000</b>	-	<b>11,800,000</b>
Accounts payable and accrued liabilities	-	<b>1,330,936</b>	<b>1,330,936</b>
	<b>11,800,000</b>	<b>1,330,936</b>	<b>13,130,936</b>

	<b>December 31, 2015</b>		
	<b>financial liabilities</b>		
	<b>due on demand</b>	<b>&lt; 3 months</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loan payable	5,500,000	-	5,500,000
Accounts payable and accrued liabilities	-	927,846	927,846
	5,500,000	927,846	6,427,846

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

### 3. Financial instruments and risk management (continued)

#### *Liquidity risk (continued)*

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 6). 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 investments rise. When the value of the Canadian dollar rises, the value of foreign investments fall.

The table below indicates the currencies to which the Company had significant exposure as at December 31, 2016 and 2015.

Currency	December 31, 2016	December 31, 2015
	As % of net assets	As % of net assets
	%	%
United States Dollar	52.32	54.47
Indian Rupee	9.89	11.76
Other	-	1.56
	<b>62.21</b>	<b>67.79</b>

The Company's net assets would decrease or increase by approximately \$7,361,175 (2015 - \$6,306,276) 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.

#### *Interest rate risk*

Interest rate risk arises on interest-bearing financial instruments such as promissory notes held. 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 – promissory notes					
December 31, 2016	1,791,219	-	-	-	1,791,219
December 31, 2015	1,135,504	-	-	-	1,135,504
Loan payable					
December 31, 2016	11,800,000	-	-	-	11,800,000
December 31, 2015	5,500,000	-	-	-	5,500,000

As at December 31, 2016, had prevailing interest rates increased or decreased by 1%, with all other variables held constant, the net assets would have decreased or increased by approximately \$90,443 (2015 - \$56,492). In practice, the actual results may differ materially.

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 3. Financial instruments and risk management (continued)

#### *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, 2016, 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 \$15,726,457 (2015 - \$ 11,985,608) (approximately 6.64% (2015 - 6.44%) 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 6).

### 4. Accounts and other receivables

Accounts and other receivables consist of the following:

	December 31, 2016	December 31, 2015
	\$	\$
Dividends	125,610	70,500
Interest	17,600	13,467
	<b>143,210</b>	<b>83,967</b>

### 5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2016	December 31, 2015
	\$	\$
Investment management fees (Note 9)	1,012,695	836,079
Professional fees	279,809	79,991
Loan interest	38,432	11,296
Other	-	480
	<b>1,330,936</b>	<b>927,846</b>

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

### 6. Loan payable

On February 19, 2008, the Company entered into a demand loan facility with the Bank of Montreal (the "Bank"). In March 2, 2015 the loan facility agreement was amended to allow the Company to borrow up to \$25,000,000 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 1.25% (prior to March 2015, the Bank's prime rate plus 1.75%), 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 investments and/or for general corporate purposes. As at December 31, 2016, the outstanding balance of the loan was \$11,800,000 (2015 - \$5,500,000) which is the fair value of the loan. During the year ended December 31, 2016 the minimum amount borrowed was \$Nil (2015 - \$Nil) and the maximum amount borrowed was \$16,000,000 (2015 - \$16,050,000). As at December 31, 2016 and 2015, the Company has complied with all covenants, conditions or other requirements of the outstanding debt.

### 7. Mining Claims

Urbana has owned mineral claims in Urban Township, Quebec for a number of years. Management monitors the exploration activity in the area on an ongoing basis and may carry out exploration work on its mineral claims if and when it is deemed suitable. In November 2014, Urbana entered into an exploration agreement with Beaufield Resources Inc. ("Beaufield"), a company that owns neighbouring properties, to explore the Urban Township region. Beaufield has led this exploration program. On June 6, 2016, Urbana issued a press release to announce the results from its winter drilling program. Geophysical work has been completed on previously unexplored portions of our claim group. Urbana is in the process of developing an exploration program, which will include drilling, for the coming 2017 winter season. This year's winter program will entail diamond drilling and is expected to cost between \$300,000 and \$600,000 depending upon results. In accordance with IFRS 6, *Exploration for and evaluation of mineral resources*, Urbana has elected to expense exploration and evaluation costs given that its mineral claims hold no known proven reserves or resources. Urbana has incurred costs totaling \$655,350 of which \$464,129 relates to 2016 (2015 - \$180,003). These costs have been expensed as incurred and are recorded as a loss in realized gain on sale and disposal of investments.

### 8. Share capital

At December 31, 2016 and 2015 share capital consists of the following:

	Year ended December 31, 2016		Year ended December 31, 2015	
	Number	Amount	Number	Amount
		\$		\$
<i>Authorized</i>				
Unlimited preferred shares				
Unlimited common shares				
Unlimited non-voting fully participating Class A shares				
<i>Issued - common shares</i>				
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
<i>Issued - non-voting Class A shares</i>				
Balance, beginning of year	43,388,500	125,433,378	47,548,300	137,459,094
Normal Course Issuer Bid				
Repurchases	(525,300)	(1,518,609)	(4,159,800)	(12,025,716)
Balance, end of year	42,863,200	123,914,769	43,388,500	125,433,378
Total	52,863,200	131,913,662	53,388,500	133,432,271

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 8. Share capital (continued)

The Non-Voting Class A shares ("Class A shares") and common shares have been classified as equity in these financial statements as the holder of these shares have no contractual rights that would require the Company to redeem the shares.

On August 29, 2016, the TSX accepted Urbana's notice of intention to conduct a normal course issuer bid to purchase up to 4,244,598 of its own Class A Shares (the "NCIB"), representing 10% of the public float, pursuant to TSX rules. Purchases under the NCIB were permitted starting on August 31, 2016, and will terminate on the earlier of August 30, 2017, the date Urbana completes its purchases pursuant to the notice of intention to conduct 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 or the CSE 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 or the CSE at the time of acquisition. The Class A shares purchased under the NCIB are to be cancelled. Urbana is not to purchase on any given day, in the aggregate, more than 6,523 Class A Shares, being 25% of the average daily volume for the most recently completed six months, which is 26,092 Class A shares calculated in accordance with the TSX rules. Notwithstanding this restriction, Urbana may make one purchase of more than 6,523 Class A Shares in any given week in accordance with the TSX's block purchase rules. As at December 31, 2016, Urbana has purchased 104,400 Class A Shares pursuant to the NCIB. Previously, the TSX had accepted Urbana's notices of intention to conduct normal course issuer bids. Details of the previous normal course issuer bid purchases are as follows:

<b>Normal Course Issuer Bid Period</b>	<b>Total Number of Class A Shares Purchased during the Period</b>	<b>Average Price</b>
August 28, 2008 - August 27, 2009	1,336,582	1.28
August 28, 2009 - August 27, 2010	3,083,920	1.32
August 28, 2010 - August 27, 2011	7,431,300	1.27
August 29, 2011 - August 28, 2012	6,636,033	1.01
August 29, 2012 - August 28, 2013	5,989,067	1.18
August 29, 2013 - August 28, 2014	5,386,000	1.78
August 29, 2014 - August 28, 2015	4,700,000	2.02
August 31, 2015 - August 30, 2016	1,332,400	1.98
August 31, 2016 - August 30, 2017	104,400	2.35

### 9. Related party transactions

Caldwell Financial Ltd., a company under common management with Urbana, is the parent company of Caldwell Investment Management Ltd. ("CIM"), the investment manager of Urbana. Urbana pays CIM investment management fees for investment management services that CIM provides to Urbana.

Urbana has a 50% ownership interest in Radar Capital Inc. ("RCI"), a private capital company, and a 100% ownership interest in Urbana SRL Inc. ("SRL"), a company that ceased operating during 2015. From 2013 to 2015, Urbana advanced SRL a total of \$620,700. These advances were included as a loss in realized gain on sale and disposal of investments in 2015. As at December 31, 2016, Urbana owned 5,000,040 units of Radar Capital Fund 1 Limited Partnership (2015 – 5,000,040) and 300,000 units of Radar Capital Fund II Series F Limited Partnership (2015 - Nil) which are both managed by RCI. As at December 31, 2016, Urbana owned 406,066 units of Caldwell Growth Opportunities Trust (2015 – 406,066), which is a private equity pool managed by CIM.

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 9. Related party transactions (continued)

Investment management fees are charged for portfolio management services in accordance with a fund management and portfolio management agreement effective as of August 1, 2011 between Urbana and CIM. Pursuant to this agreement, CIM is entitled to an investment management fee equal to 1.5% per annum of the market value of Urbana's investment portfolio. In 2016, CIM earned \$3,513,461 of investment management fees from Urbana, as compared to \$3,338,609 in 2015. The investment management fees are accrued daily and paid quarterly in arrears. As at December 31, 2016 there was an investment management fee payable included in accounts payable and accrued liabilities of \$1,012,695 to CIM (2015 – \$836,079).

Caldwell Securities Ltd. ("CSL"), a sister company of CIM and a registered broker and investment dealer, handles Urbana's portfolio transactions. During the year ended December 31, 2016, the total commission fees paid to CSL by Urbana amounted to \$531,425 (2015 - \$505,584) which was included in transaction costs.

In the year ended December 31, 2016, Urbana paid CSL \$406,800 (2015 - \$Nil) for investor relations, administrative services, office rental and storage which were all included in administrative expenses.

All related party transactions are recorded at their exchange amounts.

### 10. Income taxes

The Company's provision for income taxes for the years ended December 31, 2016 and 2015 is summarized as follows:

	2016	2015
	\$	\$
Net income before income taxes	<b>60,995,780</b>	10,845,213
Expected income taxes payable at future rates - 26.5% (2015 - 26.5%)	<b>16,163,882</b>	2,873,982
Income tax effect of the following:		
Non-taxable portion of realized capital gains	<b>(1,215,694)</b>	(1,383,200)
Non-taxable portion of unrealized capital gains	<b>(7,375,247)</b>	(339,739)
Non-taxable dividends	<b>(316,285)</b>	(323,408)
Foreign withholding tax expense (recovery), net of Canadian tax	<b>(289,243)</b>	120,655
Other	<b>(346,941)</b>	(421,645)
<b>Income tax expense</b>	<b>6,620,472</b>	526,645

represented by

Provision for deferred income taxes	<b>7,014,000</b>	450,000
(Recovery of) current income taxes	-	(87,515)
Foreign withholding tax (recovery) expense	<b>(393,528)</b>	164,160
<b>Income tax expense</b>	<b>6,620,472</b>	526,645

# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 10. Income taxes (continued)

The components of the Company's deferred income tax liabilities are as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Resource deductions available in perpetuity	(10,960)	(14,525)
Unrealized capital gains on investments	11,252,015	3,983,193
Non-capital loss carryforwards	(708,975)	(328,548)
Other	(198,080)	(320,120)
<b>Total deferred income tax liability</b>	<b>10,334,000</b>	<b>3,320,000</b>

At December 31, 2016, the Company had non-capital losses of \$2,675,378 (2015 - \$3,176,984) available for carryforward for tax purposes. The expiry dates of these losses are as follows:

Expiry Date	Amount
	\$
December 31, 2029	94,568
December 31, 2031	2,450,121
December 31, 2032	130,689
	<b>2,675,378</b>

### 11. Dividends

On February 12, 2016 the Company paid a cash dividend of \$0.05 per share on the issued and outstanding common and Class A shares as at January 28, 2016 amounting to \$2,669,438. Subsequent to year end on January 31, 2017 the Company paid a regular cash dividend of \$0.05 per share, plus a special cash dividend of \$0.05 per share, for a total of \$0.10 per share on the issued and outstanding common and Class A shares as at January 17, 2017 amounting to \$5,187,787.

### 12. Current and future accounting developments

#### *Current accounting developments*

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception* have been applied by the Company for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has no impact on the Company's financial statements.

#### *Future accounting developments*

In July 2014, the final version of IFRS 9 Financial Instruments ("IFRS 9") was issued, which replaces IAS 39 – Financial Instrument: Recognition and Measurement. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted



# Urbana Corporation

## Notes to the financial statements

for the years ended December 31, 2016 and 2015

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### 12. Current and future accounting developments (continued)

#### *Future accounting developments (continued)*

for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact the adoption of this standard will have on the financial statements.

### 13. Subsequent Event

On February 3, 2017, The Bombay Stock Exchange (“BSE”), a position the Company owns through Caldwell India Holdings Inc. and Urbana Mauritius Inc., completed an initial public offering of BSE shares (an “IPO”). BSE shares were listed on the National Stock Exchange in India. Urbana sold approximately 26.6% of its BSE shares into the IPO. Urbana’s remaining BSE shares are restricted from trading until the lock up period expires on February 1, 2018.

### 14. Approval of financial statements

The Financial Statements were approved by the Board of Directors and authorized for issue on March 15, 2017.