

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.

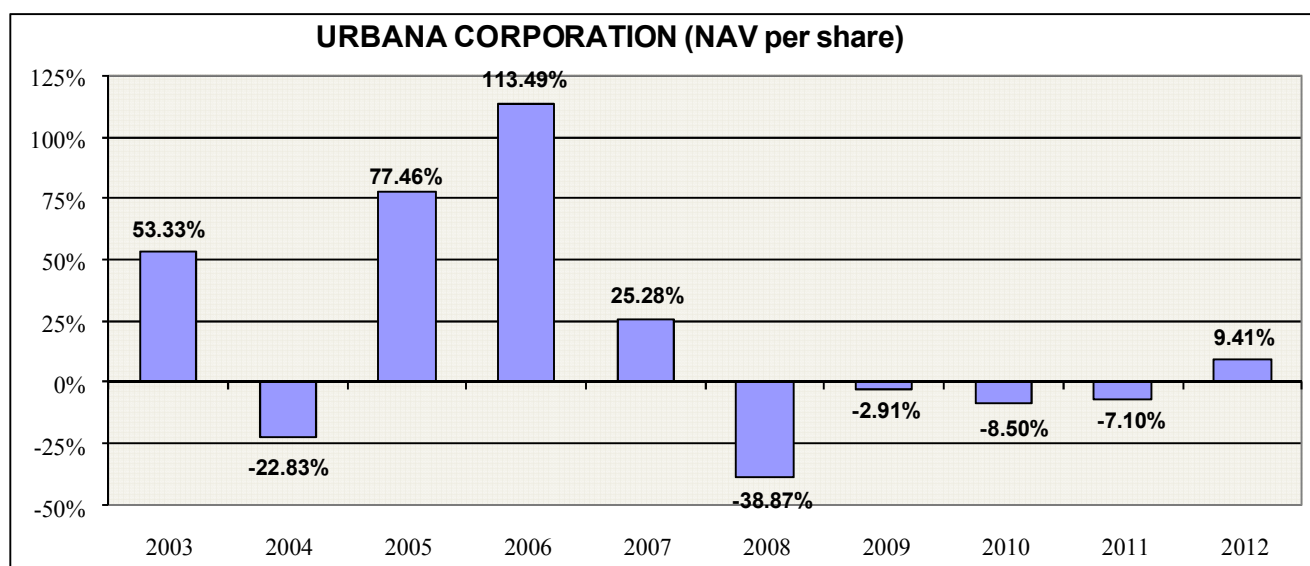
PAST PERFORMANCE

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